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AN
INTRODUCTION
TO
THE STUDY
OF
POLITICAL ECONOMY.

**Strahan and Preston,
Printers-Street, London.**

AN
INTRODUCTION
TO
THE STUDY
OF
POLITICAL ECONOMY:
OR,
ELEMENTARY VIEW OF THE MANNER
IN WHICH THE
WEALTH OF NATIONS
IS PRODUCED, INCREASED, DISTRIBUTED,
AND CONSUMED.



By D. BOILEAU.

Indocti discant, et ament meminisse periti.

LONDON:
PRINTED FOR T. CADELL AND W. DAVIES,
IN THE STRAND.

1811.

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P R E F A C E.

IF the strange discordance of opinions, which has lately been manifested on the report of the Bullion Committee, affords a lamentable evidence how little the true principles of Political Economy are understood in this country, the uncommon interest which the controversy has excited seems however to warrant the hope that the attempt to render the science more accessible will not be deemed altogether unworthy of public approbation.

It is particularly for those to whom rank or fortune hold out the noble prospect of being one day called to legislate for their fellow-subjects, that I have condensed the elements of a science on which so great a share of human happiness depends, and which, on that account, can never be thought repulsive by those who feel interested in the welfare of their country.

I lay no claim to either originality or invention. My work is merely a compilation, founded partly upon Professor Jacob's text book for German universities*, and partly

* *Grundsaetze der National Oeconomie.* Halle, 1805.

upon additional notes of my own. To make acknowledgments to the authors of the numerous publications which, within these last thirty years, have appeared here and on the continent, upon subjects connected with political economy, is impossible. There is, however, a justly celebrated periodical work, to which I am indebted for some valuable pages. Among its many excellencies, the Edinburgh Review has the undisputed merit of having repeatedly directed public attention to the most important tenets of Political Economy, with the irresistible eloquence of truth, and a peculiar felicity of illustration.

I must also repeat the observation with which I prefaced my *ESSAY ON THE STUDY OF STATISTICS**, that my work has designedly not been submitted to the inspection of any correcting friend; not from any suggestion of vanity, but because, as a naturalized Englishman, I have to encounter a strong presumption that an imperfect acquaintance with the language of my adopted country renders me inadequate to the task of delivering either public or private lectures.

Oral instruction, in any but experimental sciences which have the attraction of a costly

* Printed for H. Colburn. London, 1807.

apparatus, is, in general, too much undervalued. I allow that men of superior minds may, in the solitude of their closet, derive more benefit from the valuable treatises which abound on every subject of learning, than from the lectures of a professor: but independent of the consideration that “ the hour of the lecture enforces attendance; attention is fixed by the presence and voice of the teacher; the most idle will carry something away, and the more diligent will compare the instructions which they have heard with the volumes which they peruse in their chamber *;” it is not every candidate for a seat in legislative assemblies that is possessed of a superior understanding.

Private lectures have, undoubtedly, the advantage of being more certain in their effects. They may be adapted with more discrimination to the reach of the student. Every subject on which he wants more particular information, may be more extensively discussed; the socratical method of improving the mind revived; and solid instruction conveyed by means of familiar conversation. Roused from the dull uniformity of his own reflections, the student is forced to observe,

* *Gibbon's Memoirs*, by Lord Sheffield. Vol. i. p. 36.

to compare, and to judge ; and from this invigorating exercise of its powers, his understanding infallibly gains additional strength. He acquires besides, that readiness of expression which is so eminently useful in public situations. “ Conversation,” says Bacon, “ makes a ready man.” But is it from the conversation which takes place in the busy haunts of men, or in the gay circles of fashion, that this benefit is to be expected ? Is it not more surely obtained by conversing with those who will lend an attentive ear to our observations, and who are prepared for the subject to be discussed ?

There is, unfortunately, a formidable prejudice prevailing against Political Economy, because it is generally taken in its most extensive sense, as the knowledge of the means best calculated to produce the greatest sum of happiness in a nation ; and as far as these means depend more particularly on the civil, religious, and military institutions of the state, and on the connection of the community with other nations, it certainly comprises Politics, or the aggregate of the principles which ought to direct the conduct of governments towards the people over whom they rule, and towards other nations. But are these principles never to be taught in a free country,

because they may now and then happen to run counter to the favourite maxims of men in power? It is, however, to Political Economy, in its more restricted sense, or, as the Germans have recently begun to call it, to national economy, as far as it investigates the means of providing a plentiful national income, that the present elementary treatise is confined. My ambition will be amply gratified, if my compilation be pronounced an useful introduction to the standard treatise of *Adam Smith*.

Brompton Road,
June 1st, 1811.

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1946 (1947) 20th Annual Meeting
of the American

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ERRATUM.

Page 150, line 10, for *are cultivators* read *are not cultivators*

INTRO.



INTRODUCTION
TO
THE STUDY
OF
POLITICAL ECONOMY.

INTRODUCTION.

THE rich and endless variety of objects by which man is surrounded in this world; his manifold enjoyments; the gratification which he derives from the progressive expansion of his mind and from the benevolent feelings of his heart; every thing in and around him tends to impress him with the cheering conviction that the end of his being is happiness. But experience soon teaches him that most of the agreeable sensations, the multiplicity and intensity of which constitute happiness, arise from a regular supply of the necessaries and comforts of life, and from the complete security with which they are enjoyed.

The happiness of a nation rests upon the same conditions as the happiness of an individual. It is proportionate to the command over the means of gratification and to the security with which they are enjoyed. The totality of the means of gratification or means of supplying the wants of every individual member of a nation, is called the *national income*; and it is the surplus of this income above the actual expenditure of the nation which constitutes *the wealth of a nation*.

Political economy is the knowledge of the means by which nations are best enabled to provide a plentiful income for themselves. It refers solely to the nature and causes of the wealth of nations. *Locke, Bishop Berkeley, David Hume, Sir James Steuart*, and others who disseminated the first principles of political economy in England, blended them with subjects relative to politics, police, and finances. It was only in the year 1776 that the nature and causes of the wealth of nations were fully and ably developed in the immortal work of *Adam Smith*, the first treatise of political economy which steers clear of politics, and the first in which the national income and national expenditure are carefully distinguished from the revenue and expenses of the state.

As

As the elements of political economy embrace the nature and origin of the wealth of nations, its increase, its most advantageous distribution, and its most profitable consumption, the introduction to the study of political economy is necessarily divided into four books, of which the first shows how the wealth of nations is produced; the second, how it is increased; the third, how it is distributed; and the fourth and last, how it is consumed.



BOOK I.

OF THE NATURE AND ORIGIN OF THE WEALTH OF NATIONS.

CHAPTER I.

Of the Nature of Wealth in general.

THE aggregate of the external or tangible useful things belonging to an individual constitute his *property*. As property, in the metaphysical sense of the word, is the power of producing certain effects, so in the economical sense it may be said to be the power of supplying wants and ministering to enjoyments. Though persons may produce the means of satisfying our wants, or contribute to our comforts and enhance our enjoyments, they yet form no component part of property. They are not things. But whatever else serves to supply any of the wants of man or ministers to his comforts and pleasure, whether it be raw produce, a manufactured article, money, labour, or personal services of any kind, forms a component part of property and is comprised under the general denomination of a *commodity*. Property

therefore may be defined the aggregate of the commodities belonging to an individual.

As the wants of man regard either the mere support of life, the gratification of his ease and convenience, or the heightening and refining of his enjoyments, the supply of these wants is either necessary, convenient, or delightful, and the objects by which they are supplied are accordingly called *necessaries*, *comforts*, or *luxuries*. That extent of property which is a constant source of supply to all the three sorts of wants, is denominated *wealth*. Its component parts vary, of course, with the desires of the individuals by whom it is possessed.

Commodities accessible to every member of the community are *common* or *public property*; those which belong to one individual or to a few individuals exclusively, are *private property*. It is the aggregate of all the property belonging to a nation collectively and to every one of its members individually, which constitutes the wealth of that nation. Every commodity extant in a country, whether it be public or private property, is a component part of national wealth.

But the component parts of wealth in general have different degrees of utility, goodness, merit, or value. The value of a commodity is determined either by the kind of want

want which it supplies, and the degree in which it is necessary, or by the number and sort of useful things which may be obtained for it in exchange. One is its intrinsic, real value, value in use; the other its exchangeable value. Or in other words, one is its absolute value; the other its comparative or relative value. One depends entirely on the nature of the commodity itself, and is uninfluenced either by its quantity and the demand for it, or by the quantity of, and demand for any other commodities. Relative or exchangeable value supposes that an operation of barter renders it necessary to compare one commodity or a portion of it, with another, or the portion of another commodity; and this comparison always depends on the proportion between the supply of and the demand for both commodities. Water, for instance, has great value in use, but commonly it has no value in exchange, that is to say, nothing can be obtained for it in purchase. During a siege, as lately at Cadiz, or during an uncommonly dry season in particular situations, such as Heligoland for instance, it may however acquire a high exchangeable value. On the other hand a diamond has little or no value in use, but great value in exchange.

Every object which has an exchangeable value generally possesses some real value: but it does not follow that whatever has a real value possesses an exchangeable value. Many things of eminent real value, as water, may commonly be had for nothing. Exchangeable value is evidently a secondary consideration. It depends on the circumstance that some individuals are wanting what others are possessed of; it is a consequence of the unequal distribution of wealth. If all necessary or desirable commodities were all at once multiplied beyond the utmost wants of our whole species, all barter would cease, and the idea of exchangeable, relative, or comparative value would be no more: but it would not follow that all commodities existing in an indefinite quantity would be equally valuable, because equally abundant. Grain and meat from their value in use would still be more valuable than rubies or diamonds. Indeed such commodities as derive nearly their whole value from their extreme scarcity, if they were equally multiplied with useful commodities, would cease to be prized, while grain and meat would continue to be valuable, because they would retain their power of supporting life.

WEALTH

Wealth consists chiefly in an aggregate of commodities that have an exchangeable value. The greater the number of useful things that may be obtained in exchange for those commodities, or the larger the quantity of wants which they supply, the greater the wealth.

The component parts of wealth may be said to consist in, 1st, the useful productions of the soil, most of which cannot be procured in any considerable quantity without the help of human labour ; 2d, the useful and ornamental works produced by the hands of men ; and 3d, the external sources from which both kinds of productions or commodities are derived.

CHAP. II.

Of the Causes of the Wealth of Nations.

NATURE and labour are the joint sources of the elements of wealth, or the sources from which all useful things are ultimately derived. Some commodities may be obtained from the ground without much trouble or pain ; others, and the most numerous by far, are obtained by dint of labour only, or can be acquired only by a few.

Nature may be considered as external and internal. External nature is the same with the producing powers of the earth ; internal nature the same with the mental powers of man by which he directs his bodily exertions. They might both be regarded as sources of wealth : but to obtain any raw produce from the soil ; to increase and to improve such produce ; or to give it proper forms and shapes in order to fit it for the use of man ; external and internal nature require alike the assistance of the bodily labour of man. Hence most useful things or commodities may be pronounced to be the joint productions of nature and labour.

Land,

Land, earth, ground or foil, on account of its producing powers, is not only a source, but also an element of wealth, while man, unless he be a slave, never is considered as an element of that wealth of which his mental and bodily faculties, and his industry or the actual exertion of his powers, are a joint cause. His services and labours possess however an exchangeable value, and his abilities, knowledge and industry, though not comprised in any saleable stock, constitute material ingredients in the wealth of nations.

But no man will exert his powers; none will apply his abilities, knowledge and industry, to cultivate a tract of ground, to erect buildings on a spot, or collect a stock of useful things, if he be not previously certain that he is exclusively to possess the produce of the ground which he has sown, the buildings which he has erected, or the commodities which he has collected. Wherever man enjoys the satisfactory prospect of reaping and possessing in security the fruits of his labour, his exertions constantly tend to improve his condition. It is the absolute certainty of being left in the undisturbed possession of what he acquires which stimulates him to labour.

Individual interest is the main spring for activity in the field of human industry. The right of property must therefore be acknowledged and protected before a nation can make any sensible progress on the road to wealth. Every individual member of the community must be capable of acquiring, and at liberty to use as he likes, whatever he may have acquired. It is only in countries where every one is certain securely to keep and freely to enjoy what he has gained by his exertions, that the desire of acquiring or collecting a stock of commodities can become general (a). An inviolable respect for the right of property constitutes, besides, one of the elements of universal morality, under whatever form of government men may be united (b).

The operation of individual interest, which is so eminently conducive to the welfare of

(a) The effects of the full security of property on the whole frame of society are illustrated by an eloquent contrast of the condition of the Turkish Empire, with the condition of the United States of America in *Jeremy Bentham's Traité de Législation Civile et Pénale*. Paris, 1802. Tome ii. Chap. x. page 43.

(b) *De l'Unité en Politique et en Législation, suivi d'un Essai sur le Droit de Propriété, considéré comme Fondement de tout Gouvernement et de toute Législation*, par le Citoyen Sédillez, Membre du Tribunat. Paris, 1802.

a com-

a community, and to the happiness of its individual members, forms also the basis on which the rights of property in land or landed property are founded. It is by this appropriation of the soil that individual interest can be most effectually applied to extract the means of human enjoyment from the ground (c).

In every civilized state property is protected by a government invested with adequate power to prevent, repress, and punish every attempt at violating or invading public and private property. The right of property and a protecting government are two essential conditions without which no nation can arrive at any considerable degree of prosperity or any sensible increase of wealth. And this increase is necessarily proportionate to the goodness of the government, and to the share of liberty left to the governed in the pursuit of their individual interests (d). Every individual

(c) *Identité de l'Intérêt général avec l'intérêt Individuel ; ou la libre Action de l'Intérêt individuel est la vraie Source des Richesses des Nations*, par Don Gaspar Melchior Jovellanos ; St. Petersbourg, 1806 ; which work is ably reviewed in the Edinburgh Review for April 1809.

(d) " L'effet nécessaire d'une constitution libre est de " tendre sans cesse à tout ordonner, en elle et hors d'elle, " pour l'intérêt de l'espèce humaine : l'effet nécessaire d'un " gouvernement arbitraire est de tendre sans cesse à tout " ordon-

vidual in the nation must be permitted to dispose of his property in the manner most agreeable to himself. The liberty of alienating and exchanging is of paramount importance with the protection of property. It is with the sole view of an advantageous exchange that men are anxious to procure a surplus of commodities. The perpetuity of inheritance without the power of alienation, which the law sanctions in some countries, is the source of serious evils (e). The greater the latitude left to the free will of proprietors in the disposal of their property, the more powerful is the stimulus to acquire. Hence

“ordonner, en lui et hors de lui, pour l'intérêt particulier de ceux qui gouvernent.” *Talleyrand, Mémoire sur les Relations Commerciales des Etats Unis, &c.* Londres. Deboffe, 1808. Page 32.

(e) Professor Dugald Stewart has remarked that if the inordinate accumulation of wealth in the hands of individuals, which is every where met with in modern Europe, were gradually diminished by abolishing the law of entails, and by establishing a perfect freedom of commerce and industry, it is almost self-evident that this simple alteration in the order of society, an alteration which has often been demonstrated to be the most effectual and most infallible measure for promoting the population and wealth of a country, would contribute more than all the labours of moralists to secure the virtue and happiness of all the classes of mankind.

Elements of the Philosophy of the Human Mind.
4to. 1792. Page 252.

the

the laws of most civilized states authorize a proprietor to regulate the manner in which his property is to be distributed after his death and enforce the strict execution of his will as it is expressed in his well authenticated testamentary dispositions. If he dies without leaving such testamentary dispositions behind, the same laws regulate the claims of his nearest relations as successors to his property in the manner most generally congenial to the wishes of mankind (g).

(g) "Le droit de propriété ainsi garanti par une bonne législation est pour l'homme social une espece de création qui agrandit son être de tous les objets avec lesquels il s'identifie. Sans elle point d'industrie, point de richesse publique ni privée ; c'est à son prestige que nous devons tout ce qu'il y a de grand et de beau dans le monde." *Sédillez. Essai sur le Droit de Propriété, page 103.*

CHAP. III.

Of Land considered as a Source of Wealth.

NEXT to the right of property, which is even acknowledged among some wandering tribes, agriculture and fixed habitations are the principal features in the characteristic of civilized nations. Each nation has possessed itself exclusively of some portion of the globe which it appropriates to general services or to the private use of its members. Such a portion of the globe possessed by one nation exclusively is called the country or the land of that nation.

The natural advantages of a country have a very powerful influence upon the origin and increase of its wealth. They consist chiefly in a favourable situation, climate, and soil, and in easy communications by land and water.

The degrees of latitude and longitude, or its distance from the equator towards the north or south pole, and from a certain given point on the globe towards the east or west, determine the situation of a country. Wherever it labours under great disadvantages,

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it obstructs the welfare of a country. Sweden, before the late revolutions, was almost as large as France: yet from its situation to the North of Europe, its progress on the road to wealth has been infinitely more slow. Holland owed its ancient commerical pre-eminence and astonishing prosperity to its situation in the centre of Europe; and it is from its insular situation between Europe and America, that Great-Britain derives part of its wealth, its strength, its security, and perhaps also some of the political advantages which it enjoys.

The influence of a favourable climate and temperature upon the number of the wants of man, upon the physical perfection of the brute creation, and upon the luxuriancy of the vegetable kingdom, cannot be denied. Would England be what it is, if it had the climate of Lapland? Is not the want of raiment, fuel, and dwelling, real misery to the inhabitant of Sweden, while the Lazarene at Naples sleeps in the open air, basks in the sun, and feels no want but that of food (*h*)?

(b) *Montesquieu* in the fourteenth and seventeenth Books of his *Esprit des Loix* has rather overrated the influence of climate upon the character and laws of nations. *Volney* has suggested many well founded objections against his remarks.

Soil varies according to the principal ingredients of which it is composed. It cannot be indifferent to a country whether it be good, middling, or bad. The industry of man may however supply some of its defects, and countries which at first afforded no promising appearances of fertility, and required uncommon labour in the management of the soil have proved in time extremely flourishing. Even England produced originally nothing but floes. Yet the superior advantages of a good soil remain undisputed. The toils of the most indefatigable and most intelligent English farmer would avail little in the sandy plains of Arabia.

Natural means of easy communication are also a circumstance powerfully conducive to the prosperity of a country. It is from the facility of communications by land and water between the different parts of a country with each other, and with other countries, that agriculture and commerce derive the greatest advantages. The transport of the produce of the ground destined for the sustenance of man, and of the prime materials upon which the manufacturer bestows his labour, produces nothing ostensible in itself: but by affording an opportunity to exchange the manu-

manufactured against the raw produce of the most distant parts, it offers an additional incentive to industry, and increases the means of enjoyment (i).

Were a country ever so highly favoured by nature with regard to situation, climate, soil, and the means of communication, it yet could not maintain any considerable number of inhabitants in any degree of comfort, without some labour being bestowed upon the improvement and multiplication of its productions. But labour is never effectually applied to the cultivation of the soil in countries, where the land is not parcelled out in different lots and converted into private property. In the greatest part of the Asiatic continent every portion of cultivated soil belongs to the Emperor or Prince (k); there is no land converted into private property,

(i) In consequence of a new road and the spirit of industry which it produced, a tract of 26,000 acres on the way from Bath to Boroughbridge in Somersetshire has been drained, cultivated, and raised in rent from five to forty-five shillings an acre. *A Tour through Cornwall in the Autumn of 1808, by the Rev. Richard Warner of Bath, 8vo. London. Wilkie and Robinson. 1809.*

(k) *Montesquieu*, in his *Esprit des Loix*, Book XIV. chap. 6. says: "Les loix des Indes qui donnent les terres " aux Princes, et ôtent aux particuliers l'esprit de propriété, " augmentent les mauvais effets du climat, c'est à dire, la " paresse naturelle."

and it is to this want of landed property that we ought to ascribe the want of industry of its inhabitants; rather than to its hot climate.

In highly civilized countries few parts of the ground are retained for general use: it is mostly parcelled out among the inhabitants, because it is by this right of property in the land, that the soil is most advantageously made use of for the benefit of the whole community. And as land yields the prime matters of all useful things or commodities, like food, clothing, dwelling, &c., the means of supplying the most necessary wants of men are actually in the power of the land-owners. But if they have more land than they are able or willing to cultivate, they cannot do without the labour of others. The raw produce of their soil is, besides, insufficient to supply all their wants, especially when the country is in a high state of civilization. To live happy they require the help of those who convert their raw materials into useful shapes, or who may render them agreeable personal services; and they willingly grant to either a part of the surplus of their raw produce, as a compensation for their assistance.

Land

Land is a source of wealth, through nature or through its own producing powers, as well as through the labour bestowed upon its cultivation. This labour may improve the soil in such a manner that the artificial fertility given to the ground continues for a considerable period of time, and is at length considered as a natural quality, inseparable from or inherent in the ground. To fix the precise share which the original powers of the soil, and the labour bestowed upon it, have in the annual produce of the ground, is impossible. Land is in some degree a capital, and rent a profit derived from that capital.

As land yields the principal elements of wealth, and is the condition without which they cannot be produced, it contributes in itself to wealth, more or less abundantly, according to the natural fertility or goodness of the soil, or the variety, quantity and quality of its productions. But though one parcel of land may contribute more to the wealth of a nation than another, and though all soils require the assistance of more or less labour, land is yet every where both a source and a component part of wealth, whilst labour is only a source or cause, and no component part of wealth. It is an action,

an operation, not a thing. The subject that performs this operation is a person, and persons as has been observed before cannot, like things, be counted among the component parts of wealth.

CHAP. IV.

Of Labour.

LABOUR is any employment, occupation, exertion of mental and bodily powers combined, or even of bodily strength only, which has for its object to produce something useful (a). It is absolutely necessary to sup-

(a) Mr. *Péron*, who failed on a voyage of Discovery with Captains Baudin and Hamelin in the French Ships *Le Géographe* and *Le Naturaliste*, during the years 1800, 1801, 1802, 1803, and 1804, gives in the first volume of his *Voyage de Découvertes aux Terres Australes*, Paris 1807, an account of some experiments made by him with a new instrument invented by Regnier which he calls a Dynamometer, for the purpose of ascertaining the comparative strength which individuals are capable of exerting. He found the inhabitants of Van Diemen's Land capable of a manual force equal to - 50,6

Those of new Holland - - - - - 51,8

Timor or Amboyna - - - - - 58,7

Frenchmen - - - - - 69,2

Englishmen - - - - - 71,4

The idea had been thrown out by Mr. Coulomb, in a memoir presented to the National Institute of France, which had for its object the ascertaining the quantity of daily action which men are able to furnish by individual labour according to the different mode in which they employ their strength. But independent of climate, food, and stature, many political and moral circumstances, and the dexterity acquired from habit, must also be taken into consideration

ply the wants of man, and is applicable to Land and Capital ; it renders both useful or increases their utility.

A daily sustenance to prolong our existence, and in most climates raiment, shelter, and fuel, constitute wants of the first necessity, or the necessaries of life. Nature strongly impels man to desire whatever he considers as proper to supply these wants. But a regular supply of the necessaries of life, though the basis, is yet an inconsiderable part of the edifice of human happiness. The love of convenience, comfort, and pleasure, requires an extensive superstructure, and the wants which the progress of civilization introduces are far more numerous than those of the first necessity. Artificial and natural wants combined are the principal inducements to labour.

The supply of human wants occasioning a rapid consumption of commodities, the latter must be continually renovated as those wants are continually returning. Nature is insufficient to furnish a constant, regular, and adequate supply, and as labour alone increases and improves the fruits of the soil, and gives useful forms and shapes to its raw produce, labour is alike necessary to our existence and indispensable to our happiness. But labour in itself has little attraction. It is the consciousness

ness of their wants combined with the consideration that labour affords the means of supplying them, which stimulates men to labour.

When few people live dispersed on an extensive space of ground, as in the savage state, and easily obtain the necessaries of life from a favourable soil, their scanty support requires little labour. The spontaneous productions of nature are soon gathered, and every one providing only for his own wants, the property acquired is so small that it can hardly purchase the produce of the labour of any other individual. Besides, as all procure nearly the same commodities by their labour, there is scarcely any room for exchanges. But when the spontaneous productions of the earth are no longer sufficient for the maintenance of an increased population, men are forced to gain from the soil by means of regular labour a greater produce than it would yield of itself. Parcels of land from which any kind of food is obtained increase in value, and those who wish to share in the supply which they afford, must either assist in the cultivation of the ground, or manufacture other useful things to be exchanged against the landowners' surplus of agricultural produce.

Landowners have no other motive for gaining a surplus of raw produce from their lands, than

than to procure other commodities or personal services calculated to increase their comforts. And wherever property is protected, those who are without either land or a stock of provisions, have no other means of obtaining food or any other produce of the soil than by assisting landowners in the cultivation of their ground, converting some of its raw produce into useful forms and shapes, or rendering any other personal services. Thus labour soon becomes the regular medium of supply. The greater the quantum of useful labour performed by the members of a nation, the greater and the more complete is their supply. Labour is truly the origin and source of wealth: but it is in no sense of the word wealth itself.

As soon as a community advances in civilization, no individual provides by himself for all his wants. A reciprocal interchange of labour takes place. The desirable produce of the labour of one individual excites another to labour, since he cannot obtain that desirable production without having something acceptable to offer in exchange.

This variety of labour is a consequence of the different capacities, talents, and abilities, which nature and industry give to different individuals. Badly would that man be supplied

plied who would himself undertake the various labours requisite for the supply of his wants. The mutual interchange of the produce of different labours satisfies them in a much more perfect and complete manner. We rarely find any difficulty in producing more commodities of one kind than we want ourselves, and it is by means of this surplus that we procure of others the manifold commodities which they each singly produce. This mutual exchange of the produce of different hands is soon discovered to be the most effectual way of supplying each other's manifold wants. Hence such exchanges are either the exchange of material goods of one sort against material goods of another kind, or the exchange of material goods against personal services, or lastly the exchange of one kind of personal services against another kind of personal services.

But the very circumstance that for any commodity which others stand in great need of, or which they ardently wish for, every other desirable commodity may easily be obtained, renders the wish of possessing such objects universal, and inflames its ardour in proportion to the extent and multiplicity of human wants. And as labour is in populous coun-

countries the only certain lawful way of obtaining useful and desirable commodities, those who are possessed of a surplus of commodities employ this surplus in rewarding labours by which some of their wants are supplied ; and those who are not possessed of any surplus are powerfully induced to labour, knowing that labour is the only certain lawful way of procuring of others the commodities which they want for themselves. Thus the love of gain, or the wish to have a large supply of useful and desirable commodities, or in other words the operation of individual interest is the main spring of human exertions, and the hope of supplying our manifold wants the most powerful incitement to labour.

Labour is chiefly employed, 1. in gaining from the soil directly or indirectly all kinds of useful productions, in increasing their quantity by tillage, or searching for them in the bowels of the earth and in the depth of the waters &c. ; 2. in fitting this raw produce for use, by giving it various forms and shapes to gratify the numberless wants of men ; 3. in carrying commodities to the places where they are in demand, and distributing them among those who want them in exchange for other commodities ; and lastly, 4. in assisting others in their

their pursuits or in the attainment of the object which they have in view, be this object profit or pleasure, by personal services.

Every individual in civilized society soon finds it his greatest advantage to perform only one or a few kinds of labour, because he grows so much the more dexterous and perfect in its performance. Men are divided in almost as many different classes and ranks as there are sorts and subdivisions of labour. Some apply exclusively to the obtaining of raw produce, and according to the different labour requisite for that purpose are called husbandmen, graziers, miners, fishermen, &c. Those who bestow additional labour upon this raw produce, are either handicraftsmen, artisans, artists, or manufacturers, &c. Those who make the sale, transfer and conveyance of commodities their exclusive business, are traders, dealers, merchants, mariners, carriers, &c. Those at last who afford enjoyments that are not exactly material, or who render themselves useful and agreeable by their dexterity in performing personal services, who by their corporal and mental abilities improve our own, or who afford us protection and assistance, &c. are called theatrical performers, musicians, singers, dancers, domestics, public and private teachers, physicians, surgeons, lawyers,

lawyers, soldiers, public functionaries, &c. The greater or smaller importance of their services, and the greater or smaller share of talents requisite for the discharge of their functions, establish their respective merits and consideration.

Every individual of those four labouring classes has productions or personal services to offer in exchange for others, and by this mutual interchange of commodities and personal services, every one is enabled to enjoy any of the commodities produced, and to avail himself of any of the personal services performed in the community at large. He who has the greatest number of commodities to offer to others for their surplus of commodities, or for their labour and personal services, is of course the most wealthy; the greater his surplus of those objects which others are anxious to possess, the easier is his access to the commodities and enjoyments which he may wish for, provided the individuals who can afford him those commodities and enjoyments be not overstocked with the articles which he has in superabundance. And as our own labour, or that of those whom we employ to work for us, is the most certain regular way to produce such a surplus of commodities, he who has nothing is forced to labour in order to procure the supply of

of his wants, or to acquire a surplus; and he who has acquired a surplus of certain commodities, must either exchange it for the useful things which he wants, and which have also required labour, or pay labourers to keep up, to renovate, or to increase his stock.

Most of the productions of labour are consumed again by the labourers in more or less time. It is only when an individual or a nation have a surplus above what they consume, on which they may live for a long period of time without performing any fresh labour, that such an individual, or such a nation, are called rich, and it is with the increase of this surplus that their wealth is increased. Nothing but intelligent labour can produce such a surplus.

Labour may be improved in two ways: by producing a greater quantity, or better quality of commodities with the same consumption, and within the same given time as before; or by obtaining more or better productions in a shorter time, with the application of less human powers, or with a diminished consumption. In either case, the surplus above what the labourers and the nation require for the supply of their wants, is increased; and as every individual member of a community is powerfully interested in obtaining a surplus above what

he consumes during his labour, exertions to improve labour are readily applied wherever the conditions and the means of such exertions are not wanting.

Circumstances most conducive to a rapid increase of useful productions are: ability in the performance of labour, knowledge in the selection of the object on which it is bestowed, facility to exchange the produce of labour for other desirable objects, and a moderate proportion of those who idly consume this produce to those who effect a surplus of commodities by their labour.

Dexterity in the performance of labour is particularly acquired by the division of labour. When one individual devotes himself exclusively to the constant production of the same commodity, or when particular operations necessary for the production of a commodity are divided among many, and constantly entrusted to the same hands, the individual labourers attain a greater perfection in their respective performances, they hit more readily upon the means of shortening and facilitating their labour, and save the time which they would lose in passing from one employment to another. Long habit calls forth muscular power to its utmost exertion, and frequently enables a weak man to supply a greater quantity of labour

labour than a stronger man is capable of, and the more the powers of an individual are concentrated in one employment, the greater skill and quickness will he display in its performance.

The introduction of machinery is no less conducive to the improvement and abridgement of labour. Engines which, by their wear and tear during the performance of their operations, and by the interest of their prime cost, do not consume as much as the men or animals formerly employed in the same operations, are of incalculable service. They force nature, as it were, to serve as a handmaid, and to perform the manual labour of man in the manner which his intellect prescribes. Whatever requires great strength is best effected by engines, as they insure that unity and regularity of action which the manual labour of an excessive number of individuals renders impossible. The use and invention of machinery are, in fact, the immediate result of the division of labour (*m*). The utmost perfection

(*m*) *Adam Smith* has ascribed the division of labour to a certain propensity in human nature, which he denominates the propensity to truck, barter, and exchange one thing for another. Ought it not rather to be attributed to the desire of well being or happiness which is implanted in the human breast?

perfection of the tool making art is entirely owing to the manufacture of such implements becoming the peculiar care of a class different from that which uses them, and to the still greater subdivision which confines different subordinate classes to the manufacture of the various parts of each tool. Machinery and the division of labour are inseparable in all their operations ; the advantages which they procure are strikingly exemplified by the great iron manufactory of Swalwell and Winlaton, in Northumberland, where the number of labourers has been the same for the last fifty years, though the demand for goods has been considerably increased. The equilibrium has been preserved by the addition of machinery, and the skill acquired by the subdivisions of labour. A tilt hammer, in particular, has been erected, of which the strokes are 520 in one minute. The largest steam engine made by Boulton and Watt, of Soho, near Birmingham, is in the great copper mine of Cornwall, called *Dolcooth*, about three miles to the westward of Carnbre. It is upon a stupendous scale, but contrived with such

breast ? The desirable produce of the labour of one individual excites the other to offer him something acceptable in exchange for it. He is promoting his well-being.

ingenious

ingenious mechanism that its vast operations are performed with an ease and quickness truly wonderful. It executes the work of 200 horses, and brings up at every stroke (seven of which it makes in a minute,) upwards of fifty gallons of water.

But the division of labour, though favourable to the growth of wealth, is less so to acuteness of intellect. The Icelanders are great players at chess, and they have all that general acuteness and dexterity which results from the complication of labour in one person. The same peasant is frequently carrying on the trades of a watchmaker, locksmith, carpenter, brazier, &c. and though each trade is but imperfectly executed, the fertility of resources derived from these multiplied occupations, often gives birth to the most ingenious contrivances, and nourishes a strong genius for mechanics. The minute subdivision of labour may furnish a tolerably accurate criterion of the commercial prosperity of the country in which it subsists; but the moral degradation of its inhabitants must be rapidly increasing when the ideas of the majority are limited to the constant repetition of one simple manipulation. In proportion as the sphere of action is narrowed, the mental powers become contracted. An over minute subdivision of

labour is besides attended with this disadvantage, that in the stagnation or decay of a manufacture, when the workmen employed in those very small parts of a whole, being unacquainted with any other part, are thrown out of work, they are generally obliged to increase the class of common day labourers, whose scanty wages they reduce by their accession. In a moral point of view, it would, indeed, be highly desirable that every workman who makes or polishes a wheel or a spring, should at least have an idea of the machine or implement to which his work is to be referred; or else he is not much better than the object on which his labour is bestowed, which is no doubt highly useful, and even indispensable in the utensil, implement, tool, or engine of which it forms a part, but absolutely useless out of it. The great founder of English inland navigations (*n*) could never have improved his wonderful genius for mechanics, if he had not been apprenticed to a millwright, in the country, and trained to complete whole engines (*o*).

The

(*n*) *James Brindley*, who excelled in planning and conducting inland navigations, and was particularly patronized by the late Duke of Bridgewater.

(*o*) *Adam Smith* appears to have been sensible of the injurious tendency of an over minute subdivision of labour, when

The facility of exchanging the produce of labour rests chiefly on the demand for the commodity produced, and on the extent of the market, or in other words, on the number of individuals having a desire of possessing the commodity produced, combined with the means of acquiring it, that is to say, possessed of a surplus of commodities of a different kind, and ready to exchange them for the commodity produced, and on the wealth of our own and neighbouring countries, as well as on the more or less easy communication with the different parts of our country, and with distant countries that are in want of and able to purchase the produce of our labour.

An undue proportion of idle consumers to those who produce a surplus of commodities by their labour, or an inordinate number of individuals living in absolute idleness, enjoying sinecures, employed as public functionaries,

when he observed that the means of intellectual improvement are multiplied with the increase of national wealth. But those means seldom reach the labourer through whose exertions they are effected, and yet it is the ignorance of the lower orders which precipitates them into acts incompatible with social tranquillity.

soldiers, players, priests, &c. are hurtful, because they consume the stock produced by useful labourers without replacing it by any other production or commodity. The best possible state of society is when the bulk of the people can subsist comfortably with a moderate labour, and cannot subsist without it.

But the improvement of labour is necessarily limited by the nature of the object on which it is bestowed. All manual operations do not admit of equally perfect engines, or of an equally extensive division and subdivision of labour. It appears to be chiefly on this account that improvements in agriculture have not kept pace with the astonishing improvements which have been effected in almost all kinds of manufactures. No commodity is raised but with a view of its being employed or consumed; large quantities can be produced of such commodities only, for which many are willing and able to pay the labour and advances which their production costs. The greatness of the demand and the extent of the market, are also limited by the quality of the commodities, by the expences attending their conveyance to distant parts, and by the number of wealthy purchasers abroad and at home. And lastly, the number of those who produce useful

material things, in proportion to those who merely consume their productions, is necessarily limited by the higher purposes of human existence. Were every individual member of a nation employed in the production of commodities, objects of far greater importance for our happiness, such as the cultivation and enlightening of our understanding, the refinement of our moral feelings, the improvement of our mental and bodily faculties, the relief of our sufferings from wounds and diseases, the security which the community enjoys by means of able governors, upright judges, watchful magistrates, and brave defenders, and the incitement to labour derived from rational pleasures, would be entirely neglected. Every, even the most common day labourer, ought not to lose sight of the nobler purposes of his existence. He ought to have sufficient leisure for investigation, meditation, and rational pleasure. In stimulating the increase of wealth, happiness, the primary end for which wealth is desirable, ought not to be overlooked (*p*).

(*p*) Un gouvernement tout occupé de commerce et de richesse, ne voit plus la société que comme un atelier, n'envisage plus les hommes que comme des machines productives, et l'embarasse peu de les tourmenter pourvû qu'il les enrichisse. Les douanes, les changes, les fonds publics absorbent toutes ses pensées. Il reste indifférent sur une foule de maux qu'il

pourroit guérir. Tout ce qu'il veut c'est qu'on produise beaucoup d'instrumens de jouissance, tandisqu'il met sans celle de nouveaux obstacles aux moyens de jouir. *Jer. Bentham's Traité de Législation Civile et Pénale. Paris, 1802. Tome I. Chapitre IV. Page 23.*

CHAP. V.

Of Capital.

CAPITAL, in the most extensive sense of the word, denotes all property, material and mental, or every thing valuable to man; and as it comprehends the whole of the material world which man can appropriate to his use, it consequently includes land. But, in a more limited sense and opposed to land, capital denotes all the parts and productions of the soil which are severed from it, and includes every thing valuable except the ground.

A certain quantity of useful things must be accumulated in order that different labours and services may be performed by the different classes of society. Were nature spontaneously affording from one end of the year to the other every thing calculated to supply the wants of men, there would be no occasion for accumulating any stock of commodities, and there would be no labour required but that of gathering the fruits of the soil and fitting them for the use of man. But the producing powers of the earth are nowhere so liberal.

liberal. There are seasons when nature reposes, or at least produces nothing. Even in the most fertile countries men are obliged to hoard up some part of their surplus of victuals and commodities in order to provide for a contingent futurity ; and wherever the growth of produce demands a considerable length of time, this provident care for the future becomes absolutely indispensable. While the ground is prepared and sown ; while the seeds are left to thrive, and the grain to grow and ripe ; while the corn is cut, housed, and threshed, the husbandman must live, he must receive his maintenance from a stock of provisions gained by previous labour. Are engines and tools to be prepared, dwellings to be erected, raiments and other articles to be manufactured, or personal services to be performed, the individuals employed must be supported during the performance of their labour and services. This presupposes a stock of commodities destined not for the immediate consumption of those who possess them, but to be exchanged for other useful things, or reserved for other purposes. Such a stock of useful commodities is called a capital.

When men do not consume all the productions which their labour has obtained, but hoard them up for future uses, in order that
during

during their consumption, their industry may obtain fresh productions in still greater abundance, they are said to accumulate capitals by means of which succeeding generations are enabled to replace by their labour more than what they consume during its performance. But the whole stock of useful things which constitutes capital is more or less rapidly consumed. Some of its parts, most of those in particular which serve for the support of life, as they cannot be preserved for a great length of time, but perish of themselves when left untouched, must be replaced immediately after they have been consumed by nature, and during the labour of man. If the fresh stock produced during this consumption be not larger than that which has been consumed, the nation, supposing that the number of its individual members is not increased, is not grown richer; it remains in its old situation, is stationary, and if its population be augmented, it is poorer: but when a larger stock is produced than what has been consumed during its production, and the numbers of the members of the nation are not increased, the capital of the nation is not only replaced but augmented, and the wealth of the nation is increased.

Such

Such an increase of wealth, excepting a few fortunate and rare occurrences, is generally owing to a gradually extended industry and a progressive improvement of labour, both of which depend chiefly on the previous accumulation of capital. The produce of labour does not always serve for the labourer's immediate consumption; the component parts of the same article often pass through many hands; individuals that are strangers to and at a great distance from each other, are frequently co-operating in the production of the same commodity, which circumstance occasions a vast lapse of time; and most commodities are kept for a shorter or longer period before they are disposed of and consumed. There must be a stock provided on which the labourers may live during all this time; their maintenance or their wages must be pre-extant, and in the latter alternative there must still be a stock of commodities previously accumulated somewhere, from which they may obtain the supply of their wants in exchange for their wages, supposing them to be paid in money. The raw materials on which labour is bestowed must also be pre-extant, and must have been obtained by previous labour, as well as the tools, engines, workshops, warehouses,

houses, and buildings necessary for the operation of labour, and the storing of its produce. And lastly, the conveyance of commodities from one place to another, demands an extensive apparatus of vessels, boats, waggon, carts, horses, &c., which must have been acquired by the produce of previous labour. All these objects are component parts of the capital of a nation, and form the essential condition on which the perfection of labour depends. The improvement of labour is therefore limited by the extent of capital.

With regard to wealth in general the means of production ought carefully to be distinguished from the produce itself. The former are partly component parts of wealth, as lands and capitals, and partly personal qualities which are not saleable or transferable in themselves, but only in their productions.

Every part of the soil, and every object immediately connected with it, either by art or nature, is considered as belonging to the land as long as that connection or adhesion lasts. Hence such property goes by the general denomination of immoveable goods. All moveable useful things, and whatever is severed from the ground taken collectively, constitute capital stock, and are called moveable

able goods. Lands and capitals have many properties in common. They are both instruments or engines capable of producing useful things, and useful things in themselves. They chiefly differ in this respect, that lands are necessarily limited by the extent of the territory, or of the ground of the country, and may be improved but cannot be multiplied beyond these limits, whilst capitals are circumscribed by no bounds, and may be increased *ad infinitum*.

Mental property constitutes an invaluable part of the treasure of a nation, and is in fact included in its capital: but as genius, talents, and abilities, considered as causes or sources of wealth, are inherent in persons, they cannot be regarded as elements of wealth.

CHAP. VI.

Of the conjoint Operation of Land, Labour, and Capital.

LANDS without any labour bestowed upon them yield only a very small portion of the useful articles which they are capable of producing ; and labour to be applied with any degree of skill requires advances derived from a previously accumulated capital. Lands, labour, and capital must combine, in order to produce the greatest possible quantity of commodities. Though three distinct causes, it is yet by their joint operation only that they effect a large national income. But it is by no means necessary that he who is the owner of the soil should labour or be possessed of capital. On the contrary, each of the three distinct efficient causes may be, and frequently is, in the power of quite different individuals. They then stand in need of each other's assistance. The land-owner to obtain a larger produce from his soil wants labourers and a capital ; the labourer wants a soil or raw materials to work upon, and food and other commodities during the performance of his

his labour, that is to say, land and capital; and the stock which the capitalist has accumulated with the view of having it profitably replaced during its consumption, cannot be effectually replaced without the joint operation of nature and labour. Land, considered as the instrument of external nature, co-operates in the production of useful things: but its producing powers are generally augmented by previous labour, the beneficial results of which are connected for ever with the soil, and assume the appearance of nature. That kind of labour, however, which must be repeatedly bestowed upon the soil at stated periods, is always considered as a distinct efficient cause of production.

The share which nature has in human labour varies according to the talents, capacity, and strength with which different individuals are provided, and according to the assistance which the proper application of the elements of external nature affords, as is the case in several machines, water-mills, wind-mills, steam-engines, &c.

Labourers may also be divided in several distinct classes. Some forward the production of useful things by their judgment and knowledge. They form, as far as they purposely apply to the acquisition of such knowledge, the

the class of scientific or learned men. Others regulate labour and the employment of capital according to the directions of the learned, and constitute the class of inspectors, undertakers, foremen, &c. Others, lastly, produce useful things according to the verbal directions of the latter; they are actual labourers in the proper sense of the word. Another kind of labourers have no immediate share in the production of commodities: but they enhance their value by propagating their use, conveying them to those who want them and facilitating their exchange. Such are merchants, traders, dealers, carriers, mariners, &c.

Capitals are chiefly the produce of previous labour. By supplying the wants of the labourer during the performance of his labour, and by improving his working powers, they enable him to produce more than what the capital advanced amounts to. Labour is therefore the only efficient cause by which productive powers are bestowed upon both land and capital, or by which both land and capital are, as it were, fertilized and rendered productive.

CHAP. VII.

Of personal Services, and political Institutions.

WEALTH is prized in proportion as it is calculated to accomplish its primary end, the happiness of the human race. Whatever contributes to attain that object ought to be esteemed equal to wealth, though it may not properly be considered as a component part of material riches. Of this kind are actions, which, without producing any tangible portion of wealth, gratify indirectly certain wants and desires, or afford some enjoyment, and are on that account called personal services. Our well-being requires not only material objects, but also the services of others to afford us assistance and facilities in our pursuits, to save our time for more important or nobler occupations, to heighten our comforts and pleasures, to preserve or to re-establish our health, to improve our bodily and mental faculties, to guard and secure our rights, to protect us against internal and external violence, &c. Individuals that are able and inclined to perform such personal services, are as important to a nation as the possession

possession of material riches. And though it be true that the performance of such services pre-supposes the existence of previous external wealth, since no individual can devote his time to make himself useful or agreeable to another unless his maintenance be secured to him from a stock previously accumulated, yet such services contribute indirectly to the production of wealth ; many kinds of riches would not exist at all without them, and there are numerous instances in which the production of wealth depends as much on personal services, as the latter are generally dependent on wealth.

Besides it is not every personal service that is paid with material goods. Some are exchanged for, or rewarded with, other personal services, in which case the value of both is absolutely independent of material wealth. In many instances personal services may be regarded as component parts of a particular kind of wealth, which might be denominated personal or internal wealth. They are real commodities or means of gratifying our wants and desires, and of affording us enjoyments. They are susceptible of a comparison with external goods, capable of being exchanged for such, and valued or prized on the same principles.

Human labour in general may therefore be denominated useful or useleſs, according as it performs something that supplies a human want, gratifies a rational desire, and affords an enjoyment, or not. Every individual who performs an useful labour, bestows upon the community a benefit, and obtains benefits in return, and it is not necessary that the benefits thus exchanged be always material commodities, or component parts of wealth, properly so called.

Those members of a community who don't labour at all, or perform no kind of service, must also live upon a stock that has been previously accumulated either by themselves or by others. Personally they contribute nothing either to the increase of wealth or to the benefit of the community at large. They are useleſs.

The larger the number of individuals of whom a nation is composed, the greater in particular the number of those who are employed in useful labour, the easier is the accumulation of wealth, and the better are all kinds of wants supplied. The increase of the wealth and happiness of a nation is always proportionate to the abilities, knowledge, arts, industry, diligence, justice, and benevolence of its individual members; and nothing is more

more conducive to the acquisition of these virtues and accomplishments, than those social relations which facilitate a mutual intercourse. This is the great polisher of man, the stimulus to talents and competition. It is best promoted by people dwelling close together. The larger the number of individuals collected upon a given convenient space, the easier their means of communication by good roads, canals, &c. the greater are their facilities to produce and increase national wealth, and to contribute to their mutual well-being. A rare intercourse affords few occasions for sympathetic feelings. In thinly peopled countries men are less sensible to the opinion and less alive to the sufferings of others. They have a less acute sense of the laudable and blame-worthy, and less benevolence.

A frequent intercourse and its attendant virtues are most effectually promoted by regulations which secure the personal liberty of every member of the community, and guarantee to every individual the free use of his property, setting no other limits whatever to his freedom than what the rights of his fellow-citizens may require. That man indeed will generally be found the most active who is entitled to expect the whole profit of his

labour as his reward, and who may employ himself in that sort of work which he likes best ; and that individual commonly applies his property in the most beneficial way, who has a free disposal over both its substance and its produce. Wherever wealth is insecure it cannot circulate freely, or show itself in a general appearance of ease and comfort (q). The firmest basis of national wealth rests upon the constitution of the state. When the authority of the chief magistrate is properly defined and duly acknowledged ; when the succession to the supreme power is not left exposed to contentions and commotions ; when the subject is free, and the lowest individual in the nation secure against violence and oppression ; when the laws are equitable and impartially administered, the progressive increase of national wealth is infallible.

(q) Mr. Peuchet, (*in Herbin's Statistique de la France*,) admits that this is the case with the small landholders in France. Though they hoard money, they are afraid of employing their capitals. The same circumstance takes place in a still greater degree among the Russian peasants : but their little hoards are occasionally brought to light by unforeseen accidents. A Russian peasant paid his lord 15,000 roubles, about £2000, for his daughter's liberty. The lord took the money, but refused to emancipate the girl. See *Dr. Clarke's Travels in various countries of Europe*, 1810. vol. i. p. 170.

But

But as the component parts of wealth are chiefly esteemed according to their value, it will be necessary to investigate first the principles of the value of commodities, in order to obtain a more distinct view of the manner in which the wealth of nations is progressively increased, by the conjoint operation of land, labour, and capital, by the additional help of personal services, and by the influence of political institutions.

CHAP. VIII.

Of Value.

THE only end for which men can reasonably desire a stock of useful things, is to exchange its surplus for useful things of another kind. This prospect is the chief inducement to accumulate a stock, and the hope of being able to exchange it at pleasure, furnishes an additional motive for its acquisition. To cede to another something that is useful to him against something that is useful to us, is called a truck, barter, or exchange.

A truck, barter, or exchange may be defined the act of two persons renouncing reciprocally to their right of property in different commodities in favour of each other. In every transaction of that kind one naturally wishes to gain as much as the other. The commodity which I receive in exchange must in my eyes have as great a value as the commodity with which I part has for him who consents to take it. Exchange or barter supposes a comparison either of the commodities that are to be bartered or of their use and value, and a perfect understanding or

or agreement about this comparison between the parties.

The difference between real and exchangeable value has already been fixed. [B. I. CH. I.] The former is determined by the quality of the want which a commodity supplies, and establishes its importance. The latter is determined by the facility or possibility of obtaining other useful things for the commodity, and establishes its price. As no enjoyment whatever is possible without them, those commodities which supply the necessaries of life have the highest real value. They are of absolute necessity. But nature, ever attentive to the beings which are called into existence, places less wants in this class than what custom, habit, and the progress of civilization are daily adding to the catalogue. In the present stage of civil society, we consider as necessary whatever we may want for the bare support of life, for the invigorating of health, and for the preservation of public esteem. We ought however to distinguish wants of the first necessity from those of secondary importance.

Commodities tending to remove that uneasiness which remains after the supply of the wants of prime necessity, or to augment our contentment, are called comforts, and may

may sooner be dispensed with than the absolute necessaries. Their real value therefore is less. And the least real value attaches to those objects, called luxuries, which enhance our pleasures, satisfy newly invented, imaginary, over refined, artificial wants, or tend merely to give us the appearance of a greater consequence than we are actually entitled to. According to this scale of valuation objects of prime necessity have the greatest, objects of convenience or comforts a less, and luxuries the least real value.

Nature, as we observed before, is most liberal in supplying us with the objects of prime necessity. Those without which we could not exist for a single moment are provided spontaneously in complete perfection, and in such constant abundance that they will suffice for ever for the greatest possible number of men ; and the production of many other articles indispensable for our preservation requires only a very slender assistance from our industry. Nothing however is given for an object, be it ever so indispensable, if it can be procured without trouble. Such commodities have no exchangeable value whatever, though their real value be ever so great.

But as soon as the acquisition of an useful thing is connected with the smallest trouble, incon-

inconvenience, or difficulty, he who is once possessed of it does not part with it for nothing. He who wants it must give him something else in return, that is to say, the proprietor sets an exchangeable value upon his commodity. The circumstance which confers an exchangeable value upon any object in demand is simply, that another object, commodity, or enjoyment may be obtained for it. The quantities or number of things reciprocally exchanged, are proportioned by the competition between the supply of and demand for both. It is perfectly indifferent whether the thing that is become any one's property, has cost the proprietor any labour or trouble, or whether it be the spontaneous production of nature, and its acquisition a mere matter of chance. The only question is on what terms will he consent to part with such a thing, or what must any other individual give him in exchange, to arrive in a legal way at its possession.

It is in general the joint operation of nature and human industry, which produces valuable things. If nature be common or accessible to all, nothing is allowed or given for its share in the production, its value is determined chiefly by the trouble, difficulty, or labour which its acquisition required. But

if the share of co-operating nature be private property, if every one be not able to arrive at its possession at pleasure, he who has the powers of nature in his possession does not consent to their being made use of by others for nothing; they are then esteemed equal to a given quantity of commodities of a different kind which their proprietor wishes to possess.

The exchangeable value of a commodity is the assignable quantity of any other commodity, for which an assigned quantity of the former may be exchanged. Every commodity may be considered as exchangeable for every other, and the value of any one may be expressed by assigning a quantity of any other: but in every instance of actual exchange this reciprocal value is determined by competition, or the proportion between the supply of and the demand for each of the two commodities, or the respective portions of each. The exchangeable value therefore of any two commodities, is liable to vary with the variation of the demand for and supply of the one commodity, and the supply of and demand for the other. The exchangeable value of labour, for instance, that is, the quantity of corn, cloth, or any other commodity obtained in exchange for a given

given quantity of labour, is constantly regulated by the supply of the particular species of labour which is wanted, the demand for that particular labour, the supply of grain, cloth, or the particular commodity wanted, and the demand for that commodity.

Were the quantity of labour employed in the production of any commodity the only essential cause of its exchangeable value, labour would afford an exact measure of all exchangeable value, and whenever the quantity of labour employed on a given commodity happened to be equal to the quantity of labour employed upon the commodity for which it is to be exchanged, these two quantities of labour might fairly be used as equivalents. But it is not true that the thing purchased in every bargain is merely so much labour; the value of the raw material can neither be rejected as nothing, nor estimated as a constant quantity. The value of raw materials, like that of manufactured articles, and of labour itself, varies with the proportion of supply and demand. In some manufactures the value of the raw material compared to the labour employed is extremely trifling, as the value of the flax in a cap of fine thread lace, that of the kelp and sand in a vessel of cut glass, that of the iron and charcoal in a

steel watch-spring ; in others it greatly exceeds the value of the labour employed, as in a diamond ring. Although the wages of the whole labour employed in the production of a commodity form a component part of its price, as will be seen hereafter, yet labour itself is only a condition which limits the eventual supply of every commodity, and in the actual exchange of two commodities for each other, no regard is paid to the labour employed in producing either, but to the competition between the supply of and the demand for both commodities. If of two commodities the demand for one be increasing at a particular time whilst its supply remains unaugmented, and the demand for the other be decreasing whilst its supply remains undiminished at that particular time, the respective quantities of the two commodities exchanged for each other, may have required in their production very unequal quantities of labour. At a sudden death in the royal family black cloth acquires a value greatly above that of any other cloth, though the quantities of labour necessary to bring both articles to market may be nearly equal.

But it is on the ground of labour, or the produce of previous labour, being the only legal way of arriving at the possession of things

things of value, that labour may in some degree be considered as a general measure of exchangeable value, or as a standard by which the exchangeable value of all commodities may be determined. The question is not how much labour the production of the commodity wanted has required, but how much labour must be employed to arrive at its possession. Labour has a constant real value; it is at all times and in all places the only legal way to obtain useful things. It has also an universally exchangeable value; though a certain quantity of labour may now and then be given away for nothing, it is by labour only that our wants can be supplied, either immediately, when the commodity wanted is the production of our own labour, or mediately, when the commodity is obtained against the surplus of a previously accumulated stock of former produce of labour.

It is true that labour differs as to its quality. But among the innumerable varieties of human labour, there is one species by which all the others may be regulated, viz. the common manual labour called day labour. As a grown up person endowed with the usual natural powers can perform in a day nearly as much of such labour as any other grown up person, the average between the labour

labour of the very idle, and that of the very diligent is considered as a common day's labour, and forms the basis of all valuations of that kind. One day of difficult or skilled labour, the learning of which has required more or less time, or a smaller or larger share of talents and study, is considered as equal to a given number of days of common labour. But an invariable standard or perfect measure of exchangeable value is still a desideratum in Political Economy.

CHAP. IX.

Of the General Medium of Exchange.

WERE labour even a tolerably steady standard of exchangeable value, it yet could not be used as a direct medium of exchange or equivalent, or in other words, as the thing itself, which is actually given for another thing. He who is possessed of a surplus of commodities expects such commodities in return as he happens to want. These consist but rarely in labour, and less rarely still in exactly such labour as can be performed by the individual who is in want of any part of his surplus. He generally wants the produce of a very different kind of labour, and yet it is only the prospect of being able to procure, at pleasure, the supply of his manifold wants, against his stock of commodities, which renders a surplus of such commodities valuable to their owner. Were we to procure the commodities which we are in want of through the immediate exchange of our own productions, we should be obliged to find persons who not only have a surplus of the commodities which we want, but who are

also standing in need of exactly that kind of commodity which we have to offer in exchange. It would likewise be necessary to have the value of whatever is sought for previously ascertained, and the comparative value of the two articles determined, to be perfectly sure that the value of the commodity obtained in exchange, is as great as the value of the commodity which is parted with. This agreement about the value of each other's commodity is extremely difficult, if there be no acknowledged medium of exchange.

As this difficulty, coupled with that of finding purchasers possessed of the exact commodity which is wanted in return, throws an almost insuperable obstacle in the way of barter, nations in a state of progressive civilization have generally adopted, as an acknowledged medium of exchange, some commodity, the value of which is universally known, and which every one willingly takes in exchange for his surplus, precisely on account of this property, that he may easily part with it again, and barter it against any useful or agreeable thing. The circumstance, that its value is universally known, abridges the comparison of values; that of the medium of exchange being admitted by both parties, they need only to agree about the value of the

the object which is to be exchanged. If such a commodity, possessed of an exchangeable value in itself, be besides easily housed or lodged in safety, easily transferred or carried from one place to another, not liable to perish or to be spoiled, easily divided into many perfectly homogeneous parts, and thus capable of being compared with the smallest or largest fraction of any other commodity by simply altering its quantity, it is singularly fitted for the purpose of a general medium of exchange, and its value must increase from the very circumstance that it is adopted as such, since it thus supplies a most important want, and additional labour may be employed in its acquisition.

Any such commodity used by the common consent of all the individuals of a nation, for the particular purpose of a general medium of exchange, is called money. Merchandise and money thus become two opposite terms. One is a commodity destined to be used or consumed, the other a commodity destined to be exchanged for any useful thing; but the materials of which it is composed may likewise be ranked as merchandise, and compared with money itself. The actual exchange of merchandise for money is called buying and selling. He who gives money for a mer-

chandise, buys, purchases or is a buyer. He who receives money for a merchandise, sells, vends or is a seller.

Different nations have at different periods of their civilization, selected different commodities, more or less possessed of the properties enumerated above, as particularly fit for the purposes of money (r). But all thoroughly civilized states have given the preference to the finer metals. Gold and silver are, indeed, the fittest materials for money, for the following eight reasons:—

1. They have a real value, as they are excellent materials for useful utensils and implements, and especially calculated to gra-

(r) The *Earl of Liverpool* has stated in a very clear and satisfactory manner, the series of changes which, as a country advances in wealth, are gradually introduced into its system of currency. In a very early stage of society, when transactions are few and of small consequence, a very coarse metal, such as copper, generally answers all the purposes of a circulating medium. In the course of advancing improvement, however, silver is found to be a more convenient instrument of exchange; and in the still further progress of commercial opulence, gold, at last, is the only metal in which great payments can be conveniently effected. When a currency has arrived at this last state of refinement, the coarser metals are never employed except in the smaller payments, which could not be conveniently effected by means of a metal so precious as gold. They become therefore subsidiary merely to the operations of the main currency.

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tify that love of ornament and decoration which is awakened in men as soon as their most urgent wants are satisfied.

2. They have a tolerably steady exchangeable value, their supply being almost at all times limited by nearly the same quantity of labour, of the same quality, and less exposed to the sudden alterations to which that of many other commodities is subject.

3. They are divisible with the greatest accuracy, into exact proportions or parts, almost ad infinitum.

4. They are perfectly homogeneous. No physical difference can be discovered in any pound of pure gold or of pure silver, whether the production of Europe, Asia, Africa, or America; and their smallest parts preserve the same nature with the whole, so that their value is known instantly by their quantity.

5. They are less consumable or subject to decay than most other commodities; they are not liable to be spoiled, and even fire-proof. They may be melted, alloyed with coarser metals, and separated from them again without ever losing any thing of their weight or of their quality in the operation.

6. From their great value in a small compass, they are not too bulky for the common purposes of exchange; they are easily carried

about, and may be conveyed to the farthest distance without suffering the least injury.

7. Their prime matter considered as merchandize, does not supply any of the wants of first necessity, but is merely an object of convenience and luxury. There is no danger that it will ever be consumed in cases of famine or scarcity.

8. Their quantity may probably be regularly increased by labour. It does not appear to depend merely on chance. Nothing, in short, is capable of being more conveniently, and more exactly applied to determine the exchangeable value of all other commodities. Platina, if it could be procured in abundance, is the only metal that, from its being equally malleable, divisible and capable of resisting fire, might afford a good substitute to gold and silver.

The advantage of employing the precious metals as a general medium of exchange became still more sensible, when it was no longer left to private individuals to divide and to weigh the pieces of metal, and to determine their fineness, but public authority provided them with the image of the chief magistrate stamped upon them, as a guarantee of their purity and weight. To prevent their being too small for circulation, the gold pieces

were

were made of gold and silver, and the silver pieces of silver and copper, in certain proportions commonly called Billon, and to adapt them to the lowest possible value, copper pieces were struck with a similar impression to serve as coin. The value of an assigned quantity of money is determined by the assignable quantity of any other commodity for which it may be exchanged, and as the quantity of other commodities to be obtained for it, is neither frequently nor suddenly altered, and as pieces of gold and silver are tangible substances, the value of things is much better determined by money than by days of common labour. But as soon as the value of money itself is changed, that is to say, when it ceases to obtain the same quantity of other commodities in exchange, its value at different periods must be determined by the quantity of commodities any given quantity of money could command at that time. Were another thing to be found that could at all times command the same quantity of other commodities, it would instantly qualify itself for a standard of value. Grain has frequently been used as such. As the artificial production of a certain quantity of corn taken on the average of several years requires pretty nearly an equal quantity of labour, which limits its

eventual

eventual supply, and as corn is at all times an article of prime necessity, the same given quantity of corn has in almost all periods the same value, that is to say, the same quantity of corn purchases at different periods the same quantity of other commodities. If therefore different quantities of the precious metals are paid at remote periods for the same quantity of grain, that circumstance is not sufficient to ascertain whether it is the value of corn that has risen or sunk: but it must first be known what quantity of commodities, productions of labour, could purchase the same quantity of corn at those different periods, and it is from this last circumstance only that a certain inference may be drawn, whether it be the value of the metals or that of corn which is altered.

The quantity of labour necessary to obtain a given quantity of precious metals, has varied at different periods on account of a change, either in the productiveness of the mines or in the demand for the precious metals. The mineral kingdom, particularly with regard to the precious metals, is far from possessing a fertility as regular as that of the vegetable kingdom; the productiveness of mines cannot be increased, accelerated, or assisted by the industry of man in the same manner as the

produc-

productiveness of the soil. No more can be taken out of a mine than what that mine contains, whilst a field may be made to produce more by means of manure and ploughing. And the want of or the demand for the precious metals is more adventitious, more liable to casualties, and of course much more exposed to fluctuate, than the want of or demand for corn. If the labour necessary to produce all other commodities remains the same, whilst it is altered with respect to the metals, a different quantity of the metals must be paid for all other commodities at that period of time. But in that case it is not the value of those commodities, it is that of the metals which is altered, and by comparing the value of those commodities with any one of them which have retained their value, corn for instance, the alteration in the value of the metals immediately becomes strikingly sensible.

Great caution, however, is required in making corn the standard value. It is true that the average of several successive years compensates the difference arising from the fluctuating fertility of the soil, which, though the same quantity and quality of labour be bestowed upon it, yields a different quantity and quality of grain in different years: but

the improved methods of agriculture, introduced by an increased population, effect a material change in the quantity of labour necessary for the production of a proportionate quantity of corn. In populous and rich countries there is much more capital, the produce of previous labour, bestowed upon the growing of corn than in less populous and comparatively poor countries ; and if a new machine should be invented in husbandry which would save as many hands as have been saved in cotton manufactures, by the introduction of spinning jennies, its sudden influence would operate a prodigious alteration in the exchangeable value of corn against other commodities. Corn therefore can be a safe standard only when applied to one and the same country, or to one perfectly like it in every respect, and when the method of cultivating the soil, as well as the population and general wealth of the country, have not experienced any material changes (s).

(s) *Adam Smith* appears not to have sufficiently attended to these circumstances. His reasons for making use of the average prices of grain, as the most accurate measure of the value of the precious metals at different periods, were chiefly drawn from his considering the labour employed in the production of a commodity as the only measure of value ; and of all commodities corn certainly is the most regularly demanded, and most universally used at all times, and in all places.

Upon the whole, the value of the precious metals remains much more steady than that of corn during a moderate length of time, and since they have been employed as money almost all over the civilized world, their value is also more equal in different countries. Provided there be no revolution in the productiveness of the mines, or in the demand for the precious metals, they are undoubtedly the most appropriate standard of value. But wherever great alterations have taken place in their value, the average prices of grains may be used as substitutes to compare the value of commodities at different periods of time.

Money being universally used as a general medium of exchange, the value of things in common life is determined by money, and this valuation is perfectly correct, as long as the fineness and the value of the money itself remains unchanged. But if either one or the other, or both are altered, the comparative value of money at different periods must first be ascertained to know the value of commodities in those times.

CHAP. X.

Of Price.

THE exchangeable value of a commodity for which it may be procured at pleasure, expressed by another valuable commodity, constitutes its price. As the value of the acknowledged general medium of exchange is universally known, it is most peculiarly adapted to mark the price of commodities. Price may therefore be defined a certain proportion of the general medium of exchange, deemed equal to the value of the thing or things to be obtained for it in exchange; or in other words, price is the equivalent of a commodity expressed by the general medium of exchange. The bare amount of the pieces of money, or of other things to be given for a commodity, constitutes its *nominal price*; the influence of the three producing powers, labour, land, and capital, in the production of the commodity, expressed by the value in money which must be given to obtain it, constitutes its *real price*.

Advances or expences necessary to obtain a commodity are called costs. The aggregate

of

of the costs, which the production or original acquisition of a commodity required, may be denominated its *cost price*; the price at which a commodity may be purchased at pleasure constitutes its *market price*. The cost price depends on the price of the causes necessary to produce a commodity, or to make its primary acquisition. These causes are either *absolutely necessary*, that is to say, such as lay in the nature of the commodity itself, and without which it could not have been originally produced or acquired; or they are *voluntary or optional*, that is to say, such causes as might have been dispensed with; or lastly, they are *accidental*, that is to say, such causes as have their foundation in certain adventitious additional circumstances. When the price of a commodity is only the equivalent of the absolutely necessary causes of its existence, it is called its *natural price*; when it is a compensation for optional or voluntary causes of its existence, it is an *artificial price*; and when it is a compensation for adventitious causes, an *accidental price* (t).

The absolutely necessary efficient causes through one or the other of which, singly or

(t) *Adam Smith* opposes the natural price to the market price. But the market price may be a natural one just as well as the cost price.

combined, any commodity is originally sent to market, and without either one or the other of which no commodity can be produced or acquired, are,

1. *Land or Soil.* This is the basis of our existence and of all our operations. It furnishes us with all kinds of useful raw materials.

[B. I. CH. III.]

2. *Labour.* This is indispensable to obtain food and other useful raw and manufactured materials, to provide us with convenient dwellings, &c. [B. I. CH. IV.]

3. *Capital,* or a stock previously accumulated to afford advances, pay wages, and get implements, tools, engines, &c. without which many labours could not be performed at all.

[B. I. CH. V.]

And as land, labour, and capital stock have a share in the producing of almost all commodities, every commodity produced, or its value, must be divided among those who produced it, in proportion to the share they had in its production. One part is assigned to the land-owner, another to the labourer, and a third to the capitalist, or owner of stock, and the portion of each is proportionate to his share in the producing of the commodity. If a single individual should happen to be at once land-owner, labourer, and capitalist,

talist, the whole commodity, or the whole of its value, would of course belong to him alone. But the land-owner may lend his land to the capitalist or to the labourer; the capitalist may lend his capital or stock to the labourer or to the land-owner; and the labourer may lend his labour or industry to one or both of them. And as neither is willing to lend the source from which he may obtain useful things for nothing, the individual to whom it is lent must give in return part of the commodity, which the use of the loan helps him to gain, either in kind, or its value in any other acceptable commodity. What the labourer receives for the loan of his industry, is called the *wages of labour*; whatever is received for the use of a capital, is called *profit of stock*; and what is received for the mere permission to use a portion of land or foil, is called *rent*.

The proper employment or application of capital requires diligence, ability, and a certain degree of courage or resolution, the want of which qualities, or of any of them in themselves, frequently induces owners of capital stock to entrust its use to others. In that case the owner of stock is more particularly called *a capitalist*, and the individual who employs the capital is denominated an *under-*

undertaker (entrepreneur). The profit of stock must in such instances be divided in certain proportions between the capitalist and the undertaker.

As the operation of individual interest is universal in the human race, and no man either labours or lends any portion of his foil or of his stock for nothing, no commodities would be produced if the absolutely necessary causes of their production were not compensated, or in other words, if those who contribute to their production did not receive any compensation. Consequently, the first or cost price of all useful things must afford an equivalent for the wages of the labour, the profit of the stock, and the rent of the foil employed in their production. Wages of labour, profit of stock, and rent are the elements in which the original value of all commodities may ultimately be resolved; they are the elements of the cost price of every useful thing. It is true that every cost price does not comprise all the three elements together, because it is not every thing that requires the co-operation of the three efficient causes towards its production: but the prime or cost price of no commodity whatever can be composed of any other elements. When a commodity ceases to obtain its cost price, it

it ceases to be produced; and whether the price of the elements or causes of the commodity be natural or artificial, it must always be fully replaced if the commodity is to be farther produced or brought to market. In short the price of every thing is regulated by the price of the elements of which it is composed.

But the price of these elements is fluctuating, and before we investigate the causes of this fluctuation in the cost price, it is necessary to inquire into the circumstances which regulate the market price, and to show wherein it deviates from the cost price.

The chief inducement to produce any commodity, or to accumulate a stock, is the certainty or probability that either will be wanted, and of course meet with purchasers. But to become purchasers, people must not only want the commodity or desire to be possessed of it; they must also have wealth enough, or a surplus of commodities to give in exchange. The desire to be possessed of a thing, combined with the means of acquiring it, is called the *demand*. The demand for a commodity is the first cause why it is produced, or a stock of it provided; those who wish for it must offer to give at least the whole cost price for the commodity. As soon as

this is the case, many individuals are ready to satisfy that demand, or in other words the commodity is produced in abundance, and the owners of the article in demand look out for buyers. The seeking after purchasers is called the *offer for sale*.

If the offer for sale and the demand could be constantly maintained in such a proportion, that the offer of the sellers exceed not the demand of the buyers, nor the demand the offer for sale, commodities would always be sold and bought at their prime or cost price. But as the demands and offers for sale frequently lose their proportions to each other, it often happens that either more or less than the cost price is paid for a commodity.

A place especially devoted to the business of selling and buying, is called *a market*, and the price at which goods may there be bought and sold in great quantities, is called the *market-price*. It is, however, only those commodities which are in general request that are brought to market, and have a market price. Such as are produced merely for a few amateurs, and disposed of among them, obtain no regular market price ; they generally form a very insignificant part of the commodities of a country.

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The sellers who bring their goods to market, rarely know before-hand how great the demand for them will be. Hence many more commodities of a certain kind may be offered for sale than are sought for, or many more commodities may be sought for than are in the market. Yet as the exertion to preserve and to increase wealth is pretty universal, buyers and sellers are equally anxious to profit by the circumstances most favourable to their views. The vendor endeavours to dispose of his goods at the highest possible price, the purchaser to obtain them at the lowest possible price. A sort of struggle invariably takes place between the buyers and sellers before they agree. The latter study to raise the price, and wish to get as much as possible for their commodities; the former endeavour to lower it, and strive to give as little as possible for the commodities they are desirous of acquiring. By means of this struggle a price is at last fixed, at which the vendors are glad to sell, and which the purchasers are willing to give; at which the commodity, in short, may be obtained at pleasure. This is the *market price*. The agreeing about the price is influenced by the need in which the parties stand to buy or to sell. It is want that impells alike the vendors to sell,

and the buyers to purchase. He whose want is the most pressing, or whose desire is the strongest, is obliged to yield. If there be more goods sought for than are offered for sale, the venders demand more than what they would else have been satisfied with, and those who want the goods must resolve to give more for them than they would have done under different circumstances. In this case the market price will most likely exceed the prime or cost price. If less goods are sought for than are offered for sale, the buyers hesitate in making their purchases, their delays exhaust the patience of the sellers, and if the latter cannot do any longer without the equivalent of their commodity, or if they cannot keep their goods any longer on their hands, they must resolve to dispose of them for what the purchasers offer to give. In that case the market price is likely to fall below the cost price. But if the demand be equal to the offer for sale, if every commodity in the market readily meets with a purchaser, and every commodity in request with a vendor, the market price is likely to be the same with the cost price. It is indeed impossible for the vender to sell his commodity for less than what it really costs him, and what he must gain upon it to be enabled to continue his business.

business, that is to say, he cannot sell under the cost price. The purchasers must absolutely give as much, if the commodity be farther to be brought to market. It is on this account that the cost price always regulates the market price. As long as buying and selling is unshackled, the market price cannot be below the cost price for any great length of time. If the market price of a commodity continues long below the cost price, the causes which produced that commodity cease to operate, and its quantity continues decreasing, until the purchasers are again willing to replace the expences of its production, and to encourage the venders by the allowance of a profit. On the contrary, when the market price rises superior to the cost price, and remains long in that state, it affords a great inducement to multiply or to increase the stock of the commodity, until the price sinks so low that it holds out no encouragement to procure or to grow the article. When one purchaser is anxious to buy before the other, and one vender endeavours to be before-hand with another in disposing of his goods, there is what is called *a competition*. When it takes place among the buyers, it is *the competition of the demand*, when among the sellers, *the competition of the offers for sale*.

The former tends to raise, the latter to depress the price; for if there be any anxiety manifested among the sellers to dispose of their goods, the buyers are slow in their purchases, the offers for sale exceed the demand, and the price falls: but if there be a competition among the buyers, sellers keep their goods out of the market to obtain still higher prices, the commodity in the market is lessened in quantity, and its price gets up.

It ought, however, to be remembered, that it is not the whole stock of a commodity, but only that part which is actually offered for sale that influences the price. Whenever the whole stock is in the hands of one or a few individuals, they may easily suit the actual offer for sale to the demand. By bringing no more goods to market than are sought for, and preventing the competition of offers for sale, they have it in their power to exact high prices. The greater the number of sellers, or the greater the proportion of those who offer their stocks for sale, the more is any combination among them to keep back with their goods rendered difficult. A considerable number of sellers causes a brisk competition of offers for sale, and it is that which lowers the price. Upon the same principles, it is not the really existing want of a commodity, but

but only the actual demand for it which influences its price. One or a few purchasers may moderate their demand, and restrict it so that it does not exceed the quantity of goods offered for sale. The want of competition among the buyers tends of course to lower, and an increased demand to raise the price. But the demand is often increased by an increased number of purchasers, though the actual want of the article be not greater than it was before. As the possibility of a combination diminishes, in proportion to the number of the parties concerned, many buyers must cause a greater demand than one or a few. It is therefore an acknowledged axiom in political economy, that an increase in the competition of the demand, that is to say, in the number of buyers, tends to raise; its diminution, to lower the price of a commodity; and that an increase in the competition of the offers for sale, that is to say, in the number of sellers, tends to lower; its diminution, to raise the price of a commodity.

But besides this competition of demand and offers for sale, the price of goods is also influenced by the quantity and quality of the commodities, even when they are locked up in one or a few hands. Every stock of commodities is provided in the hope that there

will be buyers willing to pay the usual cost price. This expectation however is sometimes disappointed. Competitors starting unawares with the same article, the stock on hand may greatly exceed the demand, or unforeseen adventitious circumstances may cause the number of buyers to be materially different from that which had been reckoned upon. And as the stock on hand cannot be immediately increased, or diminished, agreeably to such casualties, the actual abundance or scarcity of goods relatively to the demand, must always have a great influence on the fluctuation of the price of commodities. The increase of some of them depends moreover on chance, or on such causes over which man has no controul, whilst the increase of others rests in a great degree and almost entirely on the will of man. If chance be more favourable to one seller than to the other, the less favoured one is yet obliged to sell at the same price with the fortunate one, and probably under prime cost. Neither can the growers of a commodity in which chance has any share, adapt the quantity to be produced to the probable demand. The market price of such articles, may more frequently and for a longer period of time deviate from the cost price, than the market price of such, of which

which the quantity is determined by man's free will. The quality of some goods, or their perishable nature, enforces also a quicker sale than that of others.

Yet the cost price is the constant regulator of the production of goods, it is the price of the causes of the origin of commodities. Its component parts must therefore be more fully developed, to obtain a complete view of the doctrine of price; and as wages of labour, profit of stock, and rent are the elements of the cost price, we must investigate the principles of wages of labour, profit of stock, and rent.



CHAP. XI.

Of Wages of Labour.

WAGES of labour are that number or quantity of useful things or commodities which an individual receives for his work, or for the sake of his labour. When this labour consists in honourable, personal services, in the performance of which much is expected from the ambition, attachment and virtue of the labourer, its reward is called a pay, a salary, a fee (*un honoraire*). With respect to common labour it is simply called wages. *Wages of labour* in general may be defined the equivalent which an individual receives for any kind of labour. *Common labour* is that which requires only ordinary, easily acquired powers and abilities, and the performance of which demands no previous preparation. *Skilled labour* is that which cannot be performed without some time having been devoted to the learning of it, or which requires extraordinary talents.

Common labour is most wanted and most easily procured. Its price is the reward of labour only; in the price of skilled labour some.

something else besides labour is compensated, as will be seen hereafter. We shall first investigate the principles which regulate the wages of common labour paid from day to day, or from week to week.

No labour, even the most ordinary, can be performed for any continuance of time without a supply of the necessaries of life, and it is not the labourer alone but his family also that must be maintained. The daily wages of a common labourer must be something more than what he may want every day for his own scanty consumption. He must have something left for his intervals of rest, and as nature prompts him to marry and to beget children, he must also have wherewith to provide a part of what his wife, and the whole of what his young children, require for their support. This is the minimum or the lowest price which must be given for the most common day labour. But as man is threatened with many dangers from sickness and other accidents which render laborious exertions impossible, the wages of labour should enable the labourer to be prepared for these misfortunes, by saving sufficiently out of them, that in cases of unavoidable interruptions to his work he might still have something to live upon.

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To be able to satisfy the cravings of hunger and thirst, and to procure raiments and a shelter against the inclemencies of weather, are not the only objects which attach man to life and induce him to labour. The labourer ought also to be made contented with his lot, and this cannot be effected without affording him periodical relief from his exertions and positive enjoyments to recruit his strength. He ought to be paid at such a rate that these indispensable wants of human nature may be supplied, and that he may indulge in those tranquil meditations which favour alike the development of his mental faculties and the improvement of his feelings, and help him to fulfil his moral destination. The natural price of a common day's labour should be a sum of money sufficient to remove the wants, the supply of which is absolutely required to support and to invigorate the strength of the labourer, and to enable him to accomplish the higher purposes of his existence.

It frequently happens however that men condescend to labour for much less, or that those who are in want of labourers are obliged to pay more; or in other words, the market price of a common day's labour is sometimes below and sometimes above the natural

natural price of labour. To inquire into the circumstances on which this rise and fall depends is of material importance, because the market price of common labour regulates one of the elements of the cost price of every commodity.

The market price of the wages of labour, like that of any other article, is regulated by the proportion of the demand to the offer. The demand for labour depends more particularly on the quantity of previously accumulated stocks, which are seeking for employment, and on the wealth of the nation in general. When the class of labourers is not sufficiently numerous to answer the demand for labourers, the wages of labour rise ; when more labour is offered to be performed than there are capitals ready to be employed in labour, the wages of labour sink.

In every country there is an average price of common labour, which remains unchanged as long as the class of labourers is not sensibly altered in its proportion to the capitals which seek for employment. Wherever this proportion is advantageous to the labourers, their wages are high ; where the proportion is unfavourable, their wages are low. They reach their highest price when, supposing the labour to be applied to the cultivation of the soil, they swallow the whole

whole rent and leave only a very small profit of stock. Higher than this they cannot rise, for the capitalist must have something for lending or employing his capital. If the labourer required the whole profit of stock, the capitalist would neither lend nor employ his capital. But the wages of labour may swallow the rent for a time. If the owner of stock is also a land-owner at the same time, and his soil produces nothing of value without labour, he may be induced to employ his capital upon his land to obtain at least a profit of stock whilst he makes the sacrifice of his rent. Yet the wages of labour cannot maintain themselves long at this high price. It soon calls forth a number of additional labourers either from other countries or from the increased families of the labouring classes ; the offer to labour augments and the price of labour sinks of course.

When the wealth of a nation or of the purchasers of the produce of labour is great, the wages of labour keep along with the other elements of price above the natural cost price as long as the demand for labourers exceeds the offers to labour. But when the labouring class increases, without the capital with which they are paid increasing in the same proportion, labourers are obliged to submit to lower wages. This is the only way in which more

labourers can be paid for with the same capital. In that case the price of labour approximates its natural price. And when the labouring classes are continually increasing beyond the proportion of the demand for labour, or when the capitals are incessantly decreasing, the wages of labour must continue sinking until they reach their minimum. But they cannot get lower without sowing by their very fall the seeds of a fresh rise ; their smallness has a destructive influence on the labouring class, and by thinning their ranks effects a better proportion between the demand for, and the offer of labour, which tends to raise its price.

In general, however, the decrease of capital has a more powerful influence in the reduction of the wages of labour than the increase of the labouring class. The diminution of capital reduces the sum total of the labourers' wages, whilst the augmentation in the number of working hands effects also a larger produce, out of which more labour can be paid.

In a free country labour keeps more generally at its natural price ; there the numbers of labourers receive a rapid addition when their wages happen to be above that price, and they readily diminish, or soon produce a

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larger surplus of commodities. But the natural price of labour differs in different countries. Objects of convenience and comfort are sooner ranked among the necessaries of life in rich than in poor countries, and the scale of wants is consequently larger in the former than in the latter. Where slavery prevails the quantum of wages rests with the masters, and is regulated by their profits only. Vastralage, bondage and other remnants of feodality are but inferior degrees of slavery ; they tend to bring the wages of labour down to their minimum. But to improve dexterity and stimulate diligence coercive measures are of no avail ; the produce of such unwilling labourers is generally inferior both in quantity and quality to that of free labourers (*u*). In several instances the work of a slave is the most expensive without being of greater benefit to its performer. Yet, when quantity is the principal object, severity may sometimes enforce more labour from the bondsman than from the free labourer ; this is the only case in which a greater profit may be derived from

(*u*) Mr. Colebrook, (*in his remarks on the husbandry and internal commerce of Bengal, London 1806,*) contrasts the cheapness of the culture of the sugar-cane in Bengal with the extravagant price at which it is raised in the West Indies ; the voluntary labours of free cultivators with the blood-stained toils of reluctant slaves.

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the labour of slaves under the superintendance of an unfeeling task master. Even free individuals, who derive a partial support from other sources, often perform their work under the minimum of wages of labour, as women and children, but it is only because the husband or father gains part of their maintenance.

In general labour is best paid where it produces most. Its increased produce accelerates the accumulation of capital, and tends to raise its price, provided the demand be not diminished at the same time. Hence labourers and their employers are alike interested in multiplying the produce of labour; as this is most effectually accomplished by diligence, which in its turn is powerfully excited by additional rewards, those who labour are not less benefited by their increased exertions than those who grant them increased wages.

But produce is still more increased by the introduction of machinery and a skilful subdivision of labour, (B. I. CH. IV.) which may sometimes prove rather disadvantageous to the labourers. If the demand for the produce is not augmented whilst a smaller number of hands suffices for its increased production, those who are obliged to seek for fresh employment, increase the competition of labourers, which keeps their wages down. In a rich

country this effect is however scarcely ever felt; new occupations are soon found, and the apparent inconvenience of a moment is counterbalanced by the superior permanent advantage which accrues to the majority of the nation from an increased produce, which procures to a number of individuals enjoyments that were out of their reach, before the abridged process of mechanical inventions lowered their price. It is besides very rare that engines are suddenly introduced, or labour subdivided and abridged at once, so as to leave the labourers, who are thrown out of employment, unprepared for the change; and at all times, and in all places, machinery and abridged labour correct the temporary evils which they inflict, by increasing the wealth of the nation, and augmenting the power of its members to pay for additional labour.

Common labour, for which there is in every country a sort of market price, constitutes, as it were, the standard by which the wages of other labours are measured. Even the most ordinary labourer is obliged to consume a certain stock of commodities before he learns to earn his bread. His wages, besides providing for his maintenance, must replace by degrees the small capital spent upon his education, and enable him to bring

up his children in his turn, in order to prevent the extinction of the labouring class. Whenever an individual is under the necessity of devoting more time to the acquisition of the abilities or knowledge necessary for the exercise of his art or science, and of employing a larger capital in his education, an adequate indemnity must be provided for him in his wages of labour. He may be compared to a soil, on which great sums have been expended, in order that its increased fertility might yield a higher rent. Liberal wages, sufficient not only to replace the advances of an expensive education, but also to enable the labourer to indulge in a comfortable way of life, are the principal inducement to the learning of skilled labour; they are the consequence of increased national wealth. In a rich nation many individuals are able and willing to pay the real cost price of such skilled labour. The greater the wealth of a country, the larger is the quantity of skilled labour that may look for its reward; and those who excel in arts and sciences, which require uncommon talents, are paid the higher, the larger the number of opulent individuals anxious to possess their performances, and the smaller the number of those who are able to supply them to their satisfaction. There is however no

market price for the works produced by such rare talents, because their exertion is not optional and the demand for their performances is not regular.

Independent of the advances necessary to learn any particular kind of labour, the wages of labour are also influenced by every circumstance which encourages or represses the eagerness to learn, and limits or extends the number of those who perform that labour. Hence dangerous, difficult, disagreeable, dirty and degrading occupations are generally better paid than safe, easy, agreeable, clean and honourable employments ; periodical and solitary labours, better than those which are performed in company and from one end of the year to the other ; labours, the success of which is uncertain, better than those the success of which is not exposed to any failure ; works, in the performers of which great trust must be reposed, better than those in the performers of which little trust is placed ; such as require uncommon talents and rare qualities, better than those for which ordinary capacities and common qualifications are sufficient ; and such, lastly, the performers of which are limited in point of numbers by police regulations, better than those which are under no restraint. But any occupation that

that has been steadily and exclusively followed for a certain length of time by the same individuals, and left to its natural progress, never fails to come to the level of its natural cost price.

CHAP. XII.

Of the Profit of Stock.

CAPITALS, when they are not suffered to lay unemployed, which is an uncommon occurrence, are either consumed or employed with the view to gain by their employment. In this latter case the capital is either lent to another individual, who consumes it and restores it to the owner out of another source with profit; or the capitalist employs his stock in the payment of such labour as produces more than the value of his capital. The first of these two ways of employing capital, though it may be beneficial to the capitalist, produces no advantage to the country, and is not susceptible of any extensive application. The second is the most general and that which yields the most regular and highest profits. Whatever is produced by means of a capital above its value is called *profit of stock.*

A capital may be considered as a machine, through the proper use of which something is to be gained. The capitalist himself is the owner of the machine, he who uses it for the

purpose of producing something useful with it, is called an *undertaker* (*entrepreneur*). The former has nothing to do but to lend it, to permit its being used; the latter regulates its operations and disposes of its produce. When the functions of capitalist, undertaker and labourer centre in the same person, the whole produce of his stock and labour belongs of course to that individual: but in extensive undertakings they are generally different persons. In either case we must distinguish the shares of profit which are enjoyed by the capitalist, the undertaker, and the labourers in their respective capacities.

The labourers, to whom the capital has been paid as wages, return a greater value for it, and it is the surplus of this value above the capital which constitutes the profit of stock. The capital of course is restored to the capitalist: but the profit or surplus is shared between him and the undertaker. The capitalist would not lend his stock if he were to derive no advantage from it, and the undertaker would not undergo the trouble of directing and superintending the application of the capital, if he were not to reap any benefit from his exertions. What the capitalist receives for the mere act of lending or for the loan of his capital, is called *interest*; what the undertaker gets for the manage-

ment of the undertaking or enterprize in which he employs the capital, is called *profit of the undertaker*. The whole profit of stock must therefore exceed the usual rate of interest when the capitalist and the undertaker are different individuals:

To know the principles which determine the rate of interest, we must begin by supposing that there is complete security that the capital will be repaid. If the capitalist runs any hazard in lending his stock he gets paid for his risk; he acts the part of an undertaker, and receives, along with the interest, a premium for his risk. That capitals may be amassed with the view to lend them out upon interest, it is necessary that the interest should be so considerable as to render the accumulating and lending of capital beneficial to the owners. The prospect of enjoying this interest or benefit may be called the production-price of capitals, or more distinctly, the price or advantage for the sake of which capitals are accumulated with the view to lend them out. This price or interest must be higher when the capitals accumulated are small or few, and lower when the capitals amassed by single individuals are large or numerous. Were the interest too low, it would amount to a very trifling consideration upon small capitals, and offer no incentive

incentive to lend them out; the larger the capital that is accumulated in one hand, the more considerable is the benefit derived from it even at a low rate of interest. In a country therefore where capitals are scarce, the natural price of interest will be high; where many and large capitals have been amassed, a low rate of interest will be sufficient to promote the lending and accumulating of capitals.

The market price of interest is called *the rate of interest*. Like the market price of every other commodity, it is regulated by the proportion of the demand to the offer. The greater the demand for capitals compared with the offers of capitals, the higher will the rate of interest rise; the more the offer of capitals exceeds the demand, the lower will the rate of interest sink. Whatever increases the capitals and the means of lending them with safety, tends to sink; whatever diminishes the capitals and the security with which they may be lent out, to raise the rate of interest. The proportion between the demand for and the offer of capitals may be altered in a twofold way. Either the demand increases, and the offer remains stationary or does not increase in the same proportion, in that case the rate of interest gets up; or the offers of capitals are more numerous and the demand continues stationary or is not increased

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in the same proportion, in that case the rate of interest falls. And, should the offers diminish whilst the demand increases, the interest must rise so much higher, just as it sinks so much lower when the demand diminishes whilst the offers increase.

In a country that only begins to be peopled and where trade is perfectly free, the demand for capitals becomes brisk as soon as there is a ready market for its produce; the rate of interest of course is high. But in a country that has exhausted almost all the usual branches of industry, and accumulated extensive capitals, there is little room left for their employment, and the rate of interest is consequently low. Should a rich country suddenly be thrown into a situation which obstructs the employment of capital, the rate of interest would also sink; and there may be a few solitary, but rare instances in which low interest is a sign of diminished industry rather than of increasing prosperity. The criterion is infallible only under the supposition of a perfect freedom of trade. Where this prevails, those capitals which find no employment at home are either applied to a new commerce with distant nations, or pass entirely into foreign countries, as will be seen hereafter.

The *profit of the undertaker* is a sort of reward for his skill and trouble in the management

ment of his undertaking, and for the risk connected with the same. But the reward or wages of an undertaker must always be more considerable than those of a common labourer, for else he would prefer being a common labourer, whose occupation is not attended with any hazard. Besides the nature of his business entitles him to a higher reward. There is also a great difference in the profits of different undertakers. The competition among them is limited by the requisites generally looked for in those to whom capitals are confided. They must be possessed of some property as a security to the capitalist; or their moral qualities must inspire great confidence, and either must be in proportion to the amount of the capitals which their enterprise requires. They must also be men of acknowledged abilities, judgement and diligence. Different undertakings require those qualities in different degrees, which circumstance again causes a difference in their profits. Hence it is extremely difficult to ascertain the principles by which the profit of the undertaker is regulated. It must however be admitted that the total profit of stock ought to be greater than the usual rate of interest; that the surplus above the interest ought to be so large that the undertaker may live by it according to his rank or situation in life, and that

that he may save something to accumulate a capital. These may be considered as the elementary principles which determine the natural price of the profit of the undertaker.

The market price of this profit follows the general rules of all market prices. As long as a country is deficient in skilful undertakers, their profits are great; when a country abounds with clever men in that line, their profits are small. In a country where every speculation is unrestrained, the profits of all undertakings which demand an equal proportion of knowledge and industry, are in general pretty nearly on a level, because the numbers who press forward to engage in gainful enterprizes is considerable, and it is their competition which lowers their profits. No sensible difference can arise except from a greater share of superior talents required in a particular undertaking; from the greater hazard to which the capital employed is exposed; or from any artificial cause which removes able undertakers from one business to attract them to another. When the profits of the undertakers are generally high, the rate of interest is also high. In that case the class of undertakers is increasing; they strive to deprive each other of capital by offering higher interest. Where profits are small, the rate of interest is necessarily low.

CHAP. XIII.

Of Rent.

RENT consists in that share of the produce of land or its value which is due to an individual merely because he is the owner of that land, whether it yields its produce of itself or by means of capitals employed upon the soil. Rent may therefore be defined the net profit of a stock advanced in land.

When a soil yields a spontaneous produce, without requiring the least additional labour, the whole produce belongs to the owner as rent: but if any one may obtain such produce for nothing, even without having any property in land, it has no value; it is only when it cannot be obtained any longer in that way and yet continues to be wanted, that it acquires a price.

But there are very few soils, indeed, which spontaneously yield a produce that may be consumed or enjoyed immediately without any kind of trouble whatever. Labour is almost always necessary to obtain any produce from the soil. The ground must be prepared, ploughed, sown, and attended to; the produce must

must be gathered, &c. In that case the land-owner cannot claim the whole produce as owner. He must give part of it to the labourers as wages, and another part as profit of stock to him who has furnished the necessary advances, and undertaken the business of preparing, cultivating, gathering, &c. Whatever remains, after those two shares of the produce have been paid, belongs to him as landowner and constitutes his rent.

No landowner will suffer strangers to cultivate his soil and to derive a profit from it, unless some part of the produce be allowed to him as rent, or unless the individual to whom he permits the use of his property guarantees him such a share. Rent arises out of the power of the landowner to deny the use of his soil to those who may be in want of it. Almost all soils to be rendered productive require a certain preparation, which cannot be effected without a capital. This the landowner will not advance unless he may hope for a rent which either insures the interest of his capital for ever or replaces it by degrees. Neither will an undertaker bestow any capital upon the soil without the prospect of a certain profit; nor is any labourer inclined to improve it by his labour without a recompence. The annual rent of land is therefore

as large as the annual produce or the annual advantage derived from the land, after the wages of labour and the requisite profit of the capitals necessary to obtain the annual produce, have been deducted.

But this share of the landowner varies in proportion to the natural fertility of the soil and to the advances of labour and capital which it requires. Hence it is impossible to establish principles by which rents might be invariably regulated. It is evident, however, that a soil cannot afford any rent unless its produce exceeds the value of the wages of labour and profit of stock necessary to obtain it; and that all lands yield a rent proportionate to the manner in which their produce is obtained. If it be obtained without any labour or advance, the whole belongs as rent to the owner; if capital and labour have been employed, the owner gets whatever exceeds the wages of labour and the profits of stock. The purchase money of a landed estate cannot be considered as a regulator of its rent; it only indicates what rent the buyer is expecting, and is rather a consequence than a cause of rent.

In the early stages of civilization food is the first commodity which obtains a regular value, because it is wanted in great quantities, and

and its production demands the assistance of labour, which limits its eventual supply. But as soon as the numbers of a nation begin to thicken, the materials for raiment, dwellings and fuel obtain also a value which exceeds the wages of the labour necessary to procure them; and in proportion as opulence increases, the catalogue of exchangeable commodities is swelled. Hence arises a striking difference in the rents of land. Soils which grow articles of food always yield a rent, provided the population be so numerous that such soils be not at the free disposal of any individual who chuses to cultivate them. Lands which yield materials for raiment, dwellings and fuel, or other conveniences and comforts of life, also bear a rent whenever these productions are no longer to be had for the mere labour of fetching them. And lastly, lands which yield articles of luxury bear a rent as soon as a nation has a great surplus of the necessaries of life and of objects of convenience. But this gradation supposes that the produce of any of these three sorts of soils does not fall below the value of the wages of labour and advances of capital necessary to obtain it.

As it is chiefly the competition of buyers which raises the price of commodities, the

vicinity of lands to populous and opulent places rises, and the distance from such places lowers the rent, in proportion to the difficulty and expensiveness of the means of conveyance. A great competition of sellers, even from distant parts, ready to answer the demand for a certain produce, tends to lower the rent of the soil from which such produce is obtained ; and lands, whose produce finds no purchasers, bear no rent at all.

Rents being also influenced by the fertility of the soil, the rent of that soil which has the greatest natural fertility with respect to a certain produce, limits the price of the rents of all the other soils, the produce of which enters into competition with its own ; for the most fertile lands regulate the price of produce and of course of rents. As long therefore as the produce of the most fertile soils is sufficient for the supply of the nation, the less fertile soils are not cultivated, and consequently unable to yield a greater rent than what their spontaneous produce is worth : but when the produce of fertile lands is insufficient and rises in price, this increased price allows the culture of the less fertile soils, and enables them to yield a rent. And these in their turn limit the rent of fertile soils, whenever a skilful culture increases their produce.

produce. When the price of agricultural produce is a sufficient compensation for the cultivation of less fertile lands, rents cannot rise higher: The additional produce causes a reduction in the price, which has the effect of lowering the rents. Only such soils will then continue to afford a higher rent, the produce of which admits of no competition or which exclusively grow a favourite produce. The greater the competition of lands, the smaller the rents. Soils which grow productions of a small compass and high value, yield in general a smaller rent than such as give a produce of less value, because the lands of the most remote countries may enter into competition with the former. Lastly, lands, the produce of which is in regular request and regularly obtained, bear a more steady rent, than those the produce of which is uncertain and not regularly wanted.

CHAP. XIV.

Of the Proportion in which the Elements of Price regulate the Price of Commodities.

THE price of most commodities is composed of all its three elements, wages of labour, profit of stock, and rent. The raw materials of all come from the soil, and although some objects, notwithstanding the right of property in land, may still be had for nothing, their number is yet continually diminishing in every country where increasing opulence causes an increased demand for all sorts of useful things.

When a commodity costs nothing but the wages of labour, the rise and fall of its price depends merely on the high or low price of labour. But the wages of labour are an element of price which enters into the price of all commodities. None can be brought to market without labour, and as labour limits their supply, it must be compensated in all directly or indirectly. When a commodity has required many and long labours, or has passed through many hands before it reaches the consumer, it has absorbed the advances

same article, according to the higher or lower rent paid for the different soils in which it was produced.

Yet, after all, rent has only the smallest influence on the price of commodities. The lowest rent will induce a land-owner to lend his soil for the purposes of cultivation, because he prefers the most inconsiderable advantage to none. A rise in the price of goods raises the rent of certain lands only, the owners of which obtain as rent what others, possessed of a less fertile soil, are forced to pay in wages of labour and profit of stock.

CHAP. XV.

Of the Influence of the State on the Price of Commodities.

THE state may influence the price of commodities in a two-fold way, either by increasing the charges or cost of their production, or by positive enactments which limit their sale and purchase. The former is chiefly effected by taxes, the latter by legal regulations. The amount of the duty laid on a certain article, or the sum by which the tax increases the wages of labour, the profit of stock and even the rent which are the efficient causes of that produce, is the exact proportion in which its cost price is raised by the tax; its market-price must of course rise in the same proportion, if there be no alteration in any of the other circumstances which influence the price of goods. With respect to any positive regulations, those which diminish the competition of the sellers, and the quantity of the goods brought to market, or which cause an artificial increase of purchasers, tend to raise the price of commodities; those regulations which increase the competition

petition of the sellers and the quantity of goods brought to market, or which diminish the competition of the buyers, tend to lower their price.

Prices are raised,

1. By the right granted to one, or a few individuals exclusively, to perform a certain labour, to manufacture a certain article, or to sell a certain commodity ; as is the case with monopolies, chartered or privileged companies, corporations, &c. The smaller the number of individuals to whom such rights are granted, and the greater the difficulty to obtain such rights, the higher will prices be driven.

2. By laying heavy duties on the importation of foreign goods, or prohibiting them altogether. This excludes foreign sellers from the competition in the market, or renders their competition very difficult.

3. By limiting the use of the soil. This prevents the proper quantity of produce being grown.

4. By favouring the exportation of certain commodities by means of bounties.

Prices are kept low,

1. By an unrestrained freedom of trade and commerce.

2. By

2. By regulations favouring the labours of a particular class. This invites others to the same labour, and lowers the price of the produce.

3. By regulations which exclude a number of buyers from the purchase of a certain produce. But these lower the price of that produce only as long as the number of purchasers is not increased in another quarter, or as long as the produce is not reduced in proportion to the small number of buyers. Prohibiting the exportation of corn seldom causes lower prices. The fear of a scarcity increases the number of purchasers, whilst it diminishes at the same time that of sellers. The prohibition thus operates in a way directly contrary to its intention. The same may be observed of the prohibition to distil from corn, which tends to restrain production, and consequently defeats its end.

Regulations which fix or assess the price above which a commodity is not to be sold at, are called *assizes*. When they fix the price below the natural cost price, the commodity is no longer produced, or seeks for a market abroad. When they fix it at the natural cost price, they are unnecessary, unless the competition of sellers be restrained. Assizes are therefore little better than

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than public notices, at what prices certain commodities may be had, or at what price the sellers are able and willing to furnish the same. They are justifiable only to prevent the abuses of privileged sellers.

CHAP. XVI.

Of Dearth and Cheapness.

DEARTH is that which can be procured only at a high price; cheap what is to be had at a low price. High and low prices are relative, when compared with the prices of other commodities, or the power to purchase; and absolute when compared with the ultimate constituent causes of all prices. The former are nominally, the latter really high or low. It is the real price only which shews whether the dearth be real or nominal.

The real price of a commodity is regulated by the influence of the three producing powers, labour, land, and capital, the former as limiting its supply, and the other two as essential conditions of labour; for labour without them can produce nothing, and land and capital may be considered as co-labourers. The sum of producing powers necessary for the production of a commodity, constitutes its value in money, or its price. When much labour, along with its essential conditions, produces few commodities; or what is the same, when much money purchases few commodities,

modities, they are dear; when many commodities may be purchased with little money, or what is the same again, when little labour produces many commodities, they are cheap.

Should human industry succeed in obtaining double the productions of the same kind and quality, with the same quantity of labour with which they are now obtained, all commodities indiscriminately, all other circumstances remaining the same, would necessarily be worth half the price at which they are now purchased: they would be double the present price if the reverse should take place, that is to say, if the present produce should require twice as much labour as it does now. Raw produce has no price at all, as long as every one can procure it at pleasure without trouble. It is the labour which it costs to obtain it that gives it its price. Suppose that in a certain country three millions of quarters of wheat are produced one year by a sum of productive powers equal to A; in that country A will be the price of those three millions of quarters of wheat. But the next year A produces only one million and a half, or half the quantity. Wheat of course will be double the price of the preceding year. In the third year A produces six millions of quarters.

Wheat

Wheat then will be half the price it bore when the powers expressed by A produced three millions of quarters. Suppose again that a sum of productive powers, equal to a third of A, produces in the same country, within the same year when it grew three millions of quarters of wheat, three millions of chaldrons of coals; in that case three chaldrons of coals will cost exactly as much as one quarter of wheat. Suppose further that one hundredth part of the powers A obtained at the same time sixty thousand marks of fine silver out of the mines, this silver would be equal in value to the hundredth part of three millions of quarters of wheat, or the value of one quarter of wheat would be equal to two marks of fine silver. And supposing lastly, that the coals and silver are not altered in their proportion to the producing powers, but that the proportion of wheat changes in the manner stated above, it is evident that in the second year the value of one quarter of wheat would be equal to six chaldrons of coals, and four marks of silver; but in the third year one quarter of wheat would be equal to only one chaldron and a half of coals, and one mark of fine silver. It must, however, be remembered, that when such proportions are suddenly altered, the natural cost price differs in general very much from

from the market price, the competition of necessary commodities being always very great in the market, and depressing or raising them commonly far beyond the proportion of the alteration in the cost price.

The price of manufactured goods is also regulated by the quantity of the producing powers employed, including the cost of the raw material, which is comprised in the advances of capital. Suppose a sum of producing powers equal to B, produces now in the course of a year one million of pairs of worsted stockings: but one hundred years ago the same powers produced only half a million of such stockings, it is evident that under that supposition worsted stockings must have been a hundred years ago double the price at which they are sold at present. Consequently the more commodities the same producing powers produce within the same given time, the cheaper is that commodity; and the smaller the quantity produced within the same given time, the dearer is the commodity.

At all events we must always ascertain the real price of a commodity before we can decide whether it be dear or cheap; and as money is the general standard of value, the real price of gold and silver must be found out

out before the real dearth or cheapness of any commodities can be pronounced upon.

Food being the support of man, the unqualified expression of cheap and dear times relates generally to the price of provisions. Hence a real dearth is that combination of circumstances in which it is difficult for an individual to obtain by his labour the provisions necessary for his maintenance and that of his family. And the times are said to be cheap, when any one may obtain by little or moderate labour the provisions necessary for himself and his family.

The only way to guard against dearth is to effect the greatest possible increase of provisions with the smallest possible sum of producing powers. The shorter the time in which, and the smaller the expence of labour, stock, and foil, at which the largest possible quantity of provisions is grown, the cheaper the times.

Those who employ themselves in the production of commodities which are not food, must exchange their labour or the produce of their labour against the labour of the husbandman, or the produce of his labour. When the latter gives to the townsman, or any individual not employed in agriculture,

a produce the production of which has cost a sum of producing powers equal to that applied by the townsmen to the commodity which the husbandman takes in exchange, they pay each other the natural cost price of their respective productions. When both produce so little that it is as difficult for the townsmen to procure the country supplies, as it is for the husbandman to obtain the manufactured goods of the town, they are both warranted in complaining of dear times ; the dearth in that instance is real and general. But when the obtaining of the necessary supplies is difficult only to one and easy to the other, the dearth is merely partial, though real to the sufferer. This may arise from one class of productive labourers having it in their power to raise the market price of their produce beyond its real cost price. How this may be effected has been shown above.

[B. I. CH. X.]

Wherever labourers are at perfect liberty to quit their trade and to go over to another ; wherever the employment of stock is unshackled and the use of the soil unrestrained, the equipoise between the town and country produce is seldom interrupted or easily restored. But the more this freedom is limited, the easier may one productive class be oppressed

oppreſſed by the other. Every ſudden change in the quantity of the neceſſary ſupplies cauſes a revolution in the price of commodities injurious to many claſſes of inhabitants for a long period of time.

A partial but real dearth is alſo frequently experienced by thoſe whose labour is com-penſated by an annual ſum of money fixed long before the period in which they live, when proviſions grow dearer, and their ſalary in money remains unchanged.

BOOK II.

OF THE INCREASE OF THE WEALTH OF
NATIONS.

CHAPTER I.

*Of the two Ways in which National Wealth
may be increased.*

THE increase of national wealth in general is effected by a constant excess in the annual produce above the annual consumption. But wealth may be measured either by the quantity of useful produce, or by the price of that produce. It may therefore be increased either by the increase of commodities, or by the increase of their price, the quantity of commodities remaining the same.

A rise in the price does not occasion a real increase of wealth, except when the objects of enjoyment which obtain a higher price are really improved, and better calculated to afford that enjoyment, or when they are employed as a medium of exchange against other useful things. When a commodity is improved by additional labour, its real value is augmented, and it actually augments the

wealth of the nation. Labour in that case causes an increase of human happiness.

When a commodity rises in price without being improved, it does not heighten the enjoyment, it only affords means of obtaining more objects of enjoyment of others than it did before. The owner of the commodity is grown richer: but others lose the additional price which they are obliged to pay. And although individuals may be benefited, the wealth of a nation, far from being augmented by a mere rise in the price of a commodity, would rather be diminished, if the real price of all things rose, because the same quantity of labour could no longer procure the same quantity of objects of enjoyment as it had done before. The only possible instance of a nation growing rich by a rise in the price of commodities, is when such commodities are disposed of to foreign nations, and the goods obtained in return have not experienced a similar rise in the respective countries from whence they are imported. Still this would be growing rich at the expence of others, and as there are very few inland or home productions of which a nation does not consume the greatest part, the nation even in that case would probably, upon the whole, lose more than it could gain.

A real

To a real and genuine increase in the wealth of a nation takes place when valuable commodities are increased at the lowest possible price. It is through this circumstance alone that objects of enjoyment are diffused without any one being a sufferer. All are benefited, because the objects of enjoyment are multiplied, and by their low price rendered accessible to all. The greater the quantity and variety of objects of enjoyment which an individual may obtain by his labour, the happier and richer is the country. One of the most essential tenets which political economy preaches to legislators, is to make it their chief object that every useful commodity be produced and sold as cheap as possible. This extends the power of buying to all ranks; the aggregate of many commodities of small value, forms a total value far above that of a few very expensive commodities. They supply the wants of many, and are preferable to any single article of equal value with their totality, as long as all classes of people are not abundantly provided with them. Instead of producing a single commodity of considerable value fit for the consumption of one individual, whilst all the other members of the community pine in want, it is indeed much better to produce a large stock of

commodities calculated for the supply of many, though it be not of a superior value. When such a stock of commodities of small value gets into the hands of a rich individual, he cannot consume them himself, he must employ them in paying for useful labour, and is thus forced to enrich the nation, whilst by consuming a single article of equal value, he would not contribute any thing to the increase of the wealth of the nation. It may therefore be affirmed that many commodities, each of which is only possessed of a small value, but which are all adapted to supply real wants, lay a more solid foundation for national wealth than a few productions, the exchangeable value of which is equally high; and which are calculated to satisfy the wants of only a few individuals.

But though it be the joint operation of labour, land, and capital that produces all commodities, it is yet capital alone which improves the powers of land and labour, and by rendering them more productive, effects the real increase of the wealth of nations.

What we call capital will be, according to the above definition, a sum of money certain only to increase in value, and which, when applied to the production of some useful thing, will add to the value of that thing.

CHAP. II.

Of the different Kinds of Capital.

CAPITALS are either active or passive, according to their being employed in effecting some useful purpose or not. When active capitals furnish an immediate supply to our wants, they are destined for consumption; when they are reserved to produce useful things, they are more generally called productive. The latter alone, by replacing the capitals which are annually consumed and adding fresh ones to their number, maintain and increase the national wealth.

A nation consumes annually a quantity of food and commodities which must be replaced if the opulence of the country is to continue unimpaired. Whatever is gained every year above the sum necessary to replace this consumption, is an increase of national wealth. Capitals effect this re-production by paying the labour which produces those commodities, the exchangeable value of which is not only equal, but superior to the exchangeable value of the commodities consumed during their production; and the sum of this excess

is the amount of the increase which the wealth of the nation receives. A capital must necessarily produce more than its original amount, for the undertaker requires a profit of stock. Yet it increases the national wealth, not only by the profit of stock, but also by the savings which the labourers, whom it sets in activity, make of that share which they receive as wages of labour. These savings are always more considerable in proportion, as the wages exceed the necessary consumption of the labourer; and as the profits of stock represent, as it were, the wages of the capitalist and undertaker, who may be considered as co-labourers, it is only the excess of their profits above their consumption which increases the wealth of the nation.

A capital may operate by remaining in the hands of its owner, or by being circulated. Of the former kind, which is called *a fixed capital*, are buildings, machines, engines, tools, and implements employed in the production of useful things; of the latter, which is called *the circulating capital*, are all commodities employed as a medium of exchange, and obtaining a higher value on that account. The fixed capital is most advantageously employed when it obtains the largest possible produce; this may be accomplished, either

by

by diminishing the fixed capital whilst the produce is the same as before, or by increasing the produce whilst the fixed capital remains the same.

Any commodity destined for sale, or to be exchanged for another, belongs to the circulating capital. Every year part of the circulating capital passes over to the fixed one, and to consumption; it is devoted to these two objects only. The remainder serves to promote the circulation or exchange of commodities; it has no other destination, and it is on this account that money is exclusively considered as the circulating capital. A certain quantity of money is of absolute necessity in every country, to facilitate the exchange of commodities: but the smaller the sum, the better; for the less a nation employs as a circulating medium, the more commodities may be used as a capital for the purposes of production and consumption.

The circulating capital may be diminished by the rapidity of the circulation, when one piece of coin, being frequently passed from one hand to the other, supplies the place of many; and by reducing the prime cost of the commodity used as money. To render a great service at a small expence is always an advantage. All labours, in which any fixed

or

or circulating capitals are employed, may accordingly be divided into such as produce valuable commodities, and such as have the exchange of this produce for their object. To the first class belong the growers of raw produce, and those who fit it for the use of man. To the second class those who buy goods in order to sell them again, and those who assist or facilitate their transactions. Capitals may also be employed in personal services, which, though no component parts of wealth, actually supply its place by the convenience and enjoyment which they afford. To ascertain how far the different employments of capital contribute to increase the wealth of a nation, we shall survey their influence upon the growing of raw produce, upon the preparation of raw materials for the use of man, upon trade and commerce, and upon personal services.

THE labour by which the manifold produce of the earth is obtained, are, 1. Rural economy, or that labour which procures from the ground the greatest possible quantity of the best accommodations for human subsistence,—it comprises agriculture, properly so called ; grazing, and the breeding of cattle ; 2. Fisheries and the chace ; and, 3. Mining, or the labour which extracts out of the bowels of the earth metals ; metallic, rocky, and alcaline salts ; mineral acids ; combustible minerals ; earth and sand, proper for divers manufactures, and for the improvement of poor soils ; and stony substances used in different arts. When the produce of any of these labours is so considerable in value, that the advances or capitals necessary to obtain it are replaced, the wealth of a nation is maintained : but when the produce is not entirely consumed by those who co-operated in producing it, and part of it is in its turn converted into capital,

it helps to increase the wealth of a nation; and the importance of this increase or surplus is in proportion to its being obtained at comparatively little expence, and calculated to supply the wants of many. In this respect agriculture is the most important occupation of a country. It supplies the necessaries of life in the greatest abundance, and lays the foundation of every other branch of industry. The producing powers of the ground, which are tolerably steady in their operation, and the constancy of the demand for the articles it grows, insure to agriculture an invariable prosperity, and enable it to pay a rent to the land-owner, besides the wages of labour and the profits of stock, which are the sole returns of all other species of industry.

Next to the cultivation of the soil, and the rearing of cattle, which is always connected with it, fisheries, although their produce can never be compared with that of agriculture, afford yet a great resource for subsistence. Their produce augments our aliments, and, by diminishing the price of these two staple articles in a proper proportion to the interests of the growers and of the consumers, Fisheries, besides, form the best sailors, and even river fishing is of considerable importance,

ance, as it increases our enjoyments by varying our food.

The chace affords but a very inconsiderable share of our means of subsistence, and mining none at all. Yet the latter yields numerous highly useful materials: but it cannot be pursued with any degree of activity, unless the supply of the first necessities be amply secured to the labourers by an over-abundant produce of agriculture.

To insure such a produce advances must be bestowed upon the soil; in order to maintain its productiveness in an equal degree of perfection or abundance, a proper stock of cattle and of implements of husbandry must be kept up; and the regular expences which recur every year from one harvest to the other, must be defrayed. The advances upon the soil do not expect the whole capital expended to be re-placed, but only such a return as will pay the interest for ever, or re-place the capital by degrees along with a proportionate interest. The capital is, as it were, embodied with the land, the value of which is increased in proportion to its produce being improved or multiplied. The stock advances require a gradual compensation for the wear and tear, and other casualties along with the interest. But the annual advances must be

com-

completely re-placed, together with the interest, by the annual produce, which must besides leave a profit to the undertaker. Hence lands, the produce of which does not re-place the advances and profits enumerated, are generally left uncultivated.

The productions which the soil yields every year are called its annual produce ; their totality, without any deduction whatever, is the gross produce ; that which remains after the expences advanced have been deducted, is called the net produce. There is however some ambiguity in the term net produce, as it commonly means whatever the land-owner receives in the form of rent for lending his soil for the purposes of cultivation. But with regard to the nation at large, whatever remains after deducting the necessary consumption of the labourers and undertakers is really a net produce, whether there be a share left for rent in the surplus or not. Hence the increase of national wealth depends less on the net produce of the land-owners and high profits of the undertakers, than upon the quantity of the net produce in the latter sense of the word, or upon the surplus of produce being so considerable, that besides replacing the advances it serves to form fresh capitals. An agriculture, that besides

besides the consumption of the husbandmen barely provides a scanty pittance for the inhabitants of the country, cannot enrich a nation: but the wealth of a nation is increased by any surplus above the consumption, whether it be the labourers, the undertakers, or the land-owners who receive the largest share of that surplus.

The whole community is most powerfully interested in the increase of raw produce at the least possible expence; but every individual co-operator in the production is more interested in the increase of his particular net produce or gain. Instances may happen, though only in countries where there is no perfect freedom of trade and property, when the interest of one co-operator in the production may be in contradiction with the interest of another, and with that of the nation at large. An increased raw produce may be swallowed up by the wages of labour and profit of stock, and leave no addition in the rent; in this case the land-owner as such has no interest in such an increased produce. The undertaker studies to derive the greatest profit at the smallest expence; he may be contented with growing a small produce that costs him little in preference to a larger one that costs him much, and as he risks less and wants but a small

a small capital, he may persist in a mode of culture which is highly injurious to the country, a certain proportion of produce being lost. The interest of the labourers is that there be as many of them employed as possible, which is most likely to be the case when the quantity of produce they obtain from the soil is considerable. Their interest therefore coincides most with the general interest, though it may in sometimes be in opposition to that of the other co-partners in the production.

To obtain the largest possible total produce at the least possible expences, is the highest degree of perfection in agriculture. It requires such a quantity of labour as will confer upon the soil the greatest degree of fertility; such an extent of capital as will furnish the advances necessary for that purpose; and undertakers so skilled in the application of capital that the smallest quantity of labour may occasion the greatest possible produce, or that the largest produce may be effected at the smallest expence. And as it is the total produce which increases the wealth of a country in proportion to the magnitude of the surplus that is left to be converted into fresh capitals, every abridgment or sub-division of labour, all sorts of machines, and improve-

improvements in cultivation have a tendency to increase the wealth of a nation by augmenting the produce of the soil or diminishing the expence at which it is obtained.

Whether it be better to divide the lands into small or large parcels for the purposes of cultivation cannot be decided in general. Husbandry upon a large scale appears more favourable to improvements in cultivation, to the introduction of machines, to the accumulation of capital, and to a regular supply of the necessaries of life. But in a country where the number of large and small capitals is considerable, it must evidently be of great advantage to have farms of various sizes. The proportional number towards each extremity ought however to be small. It is from farms of the middle size, that is to say, from two to five hundred acres, that the community receives the greatest proportion of the common necessaries of life. It is chiefly in the cultivators of such farms that the three principal requisites of good husbandry are met with, namely capital, skill, and industry. But reverting to the most evident axiom of political economy, that capital is most advantageously employed, when a given quantity obtains the largest proportion of produce, it follows that the most profitable agriculture

is that by which the greatest surplus of produce is obtained above the necessary consumption of the cultivators of the soil, and that it will always be more advantageous for the nation when this surplus is divided among many in moderate portions, than when it flows into one or a few hands, because opulence is thus more widely diffused. Besides, individuals of moderate fortunes generally employ their capitals in a way more beneficial to the industrious inhabitants of a country, than men possessed of excessive wealth. Lands or farms of the middle size appear therefore most conducive to the real increase of national wealth (a).

Yet

(a) With regard to the controversy respecting large and small farms, it has been observed that those who are in favour of the first are chiefly men of public spirit, who have turned their attention to agriculture, and having found or perceived that farms of magnitude conducted by men of judgment, spirit, and capital, abound in corn and cattle of the highest qualities, they have concluded without any further examination that all farms should be large. Those supporting the latter position, with equal pretensions for the public good, consist of minor gentlemen, the clergy and other professional men, tradesmen and others in middle life who live in towns, and who finding the prices of poultry, eggs and other good things, greatly enhanced of late years, imagine that the modern enlargement of farms must be the cause, consequently call out loudly for a division of large farms, in order, it may be inferred, that articles of luxury

may

Yet when it is left to the inhabitants of a country to divide and cultivate the land as they

may become plentiful, not regarding or perhaps not knowing what an expenditure of poor men's food is occasioned by the rearing and fattening of poultry. The same barley or other grain which has been used in rearing and fattening a fowl, to supply one dish of an epicure's dinner, would have furnished a labourer's cupboard with bread for several days. But admitting, what is obvious, that farms of magnitude, cultivated by wealthy and skilful men, furnish the markets with a greater proportion of the common necessities of life than small ones in the hands of poverty and ignorance, it is but common prudence to examine into the effects which would follow a general enlargement of farms to be managed by wealthy men, and to conceive how the markets would be supplied under such a regulation, before it be carried into effect. If in the year 1801, when the country contained farms of all sizes and cultivation of all descriptions, there was a general cry against farmers for keeping back their corn from market, what evil and outrage might there not be expected, were all the lands of the kingdom in the hands of the wealthy? If the prices of grain after harvest should not meet their expectations, they would in consequence defer to thresh out more than for their own uses. And although they might have cause of repentance the ensuing summer, this would not relieve the distresses of the poor famished in the mean time; while on the contrary, were all the farm lands of the country in the hands of the needy, the reverse would be the consequence. Presently after harvest the produce would be hurried to market too fast for the consumption, and the surplus would necessarily fall into the hands of dealers, who, besides reserving on all occasions an allowable profit, would have it in their power to fix their own prices during the summer months.

they please, the individual interest of the land-owners will of itself discover the most profitable mode

Of course either of these extremes would be productive of serious evil. What the community require with respect to farm produce is to have the markets regularly supplied by the growers, the immediate producers, whether of vegetable or of animal food, without its passing through the hands of middle men unnecessarily. Hence it is evident that to obtain a regular supply of corn by the growers themselves throughout the year, cultivators of different descriptions are requisite; needy men who want an immediate supply of money after harvest to pay servants' wages and Michaelmas rents; men without affluence who thresh out their corn in the winter months; and opulent, purse-proud, speculative men to supply the markets during summer and early autumn. And this most desirable order of things England at present happily enjoys in a considerable degree. Nay, even admitting that the higher classes who reside in towns are entitled to the indulgence of luxuries out of the produce of lands, we still perceive the propriety of a gradation of farms, inasmuch as it furnishes large farms to feed the poor and small ones to pamper the rich. Though in a general view of the country in this point, no great alterations are requisite, yet when examined in detail, it admits of some improvement. There are districts which abound too much in small farms, others in large ones, and some in farms much too large for accurate management in any way. And if the subject be viewed in the light of good government and the permanent welfare of the country, a similar gradation in the sizes of farms appears to be consonant with right reason. The tenantry of a country may be said to occupy the wide space in society which intervenes between labourers and men of landed property; and surely they ought to form a regular chain between

mode of culture. Wherever there is a perfect freedom of property and trade, the best methods of cultivation are sure to be introduced; and in such countries the interests of the land-owner, of the farmer, and of the labourer, will best agree with each other, and

between them. But make the farms of the country either uniformly large or uniformly small, and a number of links would be wanting. In the former case particularly, a wide breach or chasm would be formed, a void space between a numerous peasantry and their petty lords; a state of civilized society this which has no foundation either in reason or sound politics, which require a regular gradation from the peasant to the prince, and from the highest to the lowest in society; such a one as we fortunately find in this country at this time (1810). And viewing the subject in a moral light the present order of things appears to be nearly right. If farms were either uniformly large or uniformly small, industry, frugality and emulation, the sinews and nerves of society, would among the lower classes in agriculture lose their stimulus. If a farmer servant or a labourer saved a few pounds, or had fifty or a hundred pounds left him, he could not employ them in his own line of life. He would either dissipate them, live on them as an idler, or carry them into some other line of business. Whereas at present, at least in districts in which farms of the smaller sizes still abound, there are many instances of servants of the lowest order rising to affluence, merely by the help of their own industry, frugality, and a natural spirit of emulation, cherished and led on by the gradation of farms.

It has also been justly observed by Mr. *Malthus*, that the agriculture of Norway has advanced so slowly because there are no gentlemen farmers who may set the example of improved cultivation.

coincide with the national interest. The contradiction or opposition of these different interests can take place only in those countries where labourers and properties are not perfectly free.

A surplus of corn has no value unless it may be exchanged for commodities of a different kind. An improved agriculture supposes therefore some opulence in those who are cultivators of the soil. The more these are inclined to give for the produce of the fields, the greater will be the inclination of the husbandman to increase that produce; and the larger will be the number of capitals attracted towards agriculture. But the opulence of the non-cultivators must consist in other useful productions, which they have to offer to the husbandman for his surplus, and which they may either have fetched from foreign parts or produced in the country. The larger the quantity of commodities which the husbandman gets for his productions, the more does his wealth increase, and the greater will be his exertions to increase the produce of his fields. Yet if the other inhabitants were obliged to give so much of their commodities for the necessaries of life, that with the utmost exertion they could not earn more than their value, wealth would flow into the hands

hands of the landholders only; the national opulence would not be augmented. But when the non-cultivators are enabled to purchase the surplus produce of the husbandman with an inconsiderable part of their productions or of their receipts, and when this small portion in its turn obtains many commodities for the cultivator of the soil, the national wealth is virtually increased by agriculture. The more wealth is diffused among all the inhabitants of a country, the greater is the number of labourers employed; and the proportionate demand for provisions, which augments the produce of the fields, augments alike the opulence of the country.

But independent of the food obtained from the growing of corn and vegetables, and from the breeding of cattle, which improves the culture of the soil, men want materials for clothing, dwelling, and other conveniences, which are also the produce of the ground. These materials are provided in abundance as soon as the nation is able to pay their cost price. And as most fields proper for the cultivation of such produce are also fit for the growing of grain, it is commonly the culture of corn which in a populous country limits the profit of the cultivation of all other kinds of productions. Whenever the growing of

one commodity bears a higher profit, fields are appropriated to that commodity until its profit is again reduced to a level with that of the growing of corn, and whenever the culture of any vegetable produces less, the land on which it grew is ploughed again for corn, until the former produce, by being diminished in quantity, grows so dear that its cultivation becomes once more as profitable as the growth of corn. If things be left to their natural course, the rotation of crops will be regulated nearly in this manner. When a country begins to increase in population, all the land, which from its natural fertility requires the least labour, will be converted into corn-fields, the rest will be used as pastures and forests. The cattle fed on such pastures, which yields a poor supply of food compared with the corn that might have been grown on the same, constitutes the sole profit of the landowner: and as the breeding of it requires little labour and few advances, which is also the case respecting the management of forest lands, cattle and wood are obtained at very reasonable prices. But as soon as the demand for corn and other vegetables increases, corn rises in price; more lands and greater expences are devoted to its culture; the grass lands are converted into corn-fields, and

and the pastures reduced, till at length the advantage derived from cattle in the improvement of husbandry causes it to be bred with more care, and grasses to be grown for its fodder (*b*), when the breeding of cattle and growing of grain limit each other, as we observed before. The same happens with timber. As long as wood grows almost spontaneously and is abundantly to be had, it has scarcely any value, particularly at a great distance from populous places : but when corn fetches high prices, many forests are converted into arable land, and wood growing scarcer and consequently dearer, artificial plantations of wood become as profitable, in time, as the growing of corn.

Food, and materials for clothing, dwelling, and fuel, constitute the principal wants of man. It is the abundance of such articles which lays the surest foundation for a great

(*b*) Mr. *Arthur Young* has remarked that there is not a surer proof of the backward state of the country than that of meadows bearing an exorbitant price. When chalk hills become covered, as they ought to be, with fainfoin, the price of meadows sinks half. When the arable lands yield neither cabbage, turnip nor potatoe for the winter nourishment of cattle, hay is the only dependence. When the value of clover is little known, meadows must be rated at too high a value. These simple instances shew at once the connection and the cause.

population.

population. All sorts of labour are willingly performed in exchange for a regular supply of the necessaries of life, and suppose a previously accumulated stock of provisions, the culture of which is of course the more profitable in proportion to the quantity of aliment obtained from a given field at a small expence, and to the length of time they can be kept without being spoiled. The advantages of the different branches of agriculture, breeding of cattle, horticulture, fisheries, and the chace, relatively to this point, are easily compared.

When population is increasing and a sufficient stock of provisions accumulated, other useful raw materials contained in the bowels of the earth are extracted by the application of human labour. Metals and minerals furnish us with the most important tools and implements in the arts, with the most convenient commodity for a medium of exchange, and with the most agreeable fuel; they greatly add to the solidity and beauty of our dwellings, and to the improvement and decoration of our furniture and utensils, and they afford us, besides, innumerable other enjoyments, and are as much component parts of wealth as the provisions obtained by the industry of man, and, like them, proper objects for the employment of capital.

But

But the employment of capital in the production of raw materials has its limits. A field can produce only a certain quantity of vegetables, a mine can yield only a certain quantity of metals and minerals. If more labour be applied to either than is necessary to obtain that quantity, it is labour thrown away. Every field, every mine, can employ only a certain capital. And although a highly improved culture or additional labour may force some soils to yield more, there are yet many lands that do not reward this additional labour, as they don't even produce the amount of the labourers' consumption, which is the least they ought to produce. No advances can be bestowed upon such soils; they must be devoted to the growth of an inferior produce that requires little or no labour. But if even an excess above the consumption of the labourers could be obtained, the value of the surplus would not replace all advances, nor yield the proper profit. It is only a rise in the price of agricultural produce which can effect this. Hence the number and amount of capitals employed in the cultivation of the soil depends chiefly on the regular price of its produce. There are however many countries in which the ground is neither so well nor so generally cultivated as the price of corn

corn seems to allow, and as it would be done were it not for the numerous obstacles that prevent the employment of capital in agriculture, such as the remnants of the old feudal laws, which keep some lands inseparably connected with certain families; laws of primogeniture and entail (c); lands possessed by municipal bodies, churches, colleges; the toleration of commons; the right of chacing or hunting on another individual's foil; limitations in the use and sale of land, in the

(c) It is true, that in a country where capital overflows, as in England, the expedient of long leases may, to a considerable extent, supply to agriculture the means which are driven from it by primogeniture and entails. It becomes in this manner again subdivided into portions which individual attention is competent to embrace, and if fair and ample security is provided for the enjoyment of the produce during a sufficient number of years, adequate motives are afforded for considerable exertions, and the application of considerable capital to increase the productive powers of the foil. But how feeble must be the motives for exertion and expence where a man regards the foil as the property of another, and reflects that the produce only of a few years must be the sole reward of his labours and risk, while the permanent benefit goes from him to a stranger! How feeble the motive of this man to the motives of him who is improving his own foil, and considers that the benefit of his exertions may redound to his latest posterity! The West Indies have attracted so much capital, merely because there the cultivator is at once the cultivator and the owner of the foil; and entirely similar is the operation of similar causes in the United States of America. See *Edin. Review.*

mode

mode of culture (*d*), in the trade with its produce (*e*); the degradation of the labourer by slavery, vassalage, villainage, bondage; and contributions in kind. Agriculture under more favourable circumstances would attract more capital and yield a greater produce. A country-life is eminently conducive to health, and confers a high degree of independence upon a capitalist. Besides capitals devoted to agricultural improvements are most securely placed. They are, as it were, identified with the soil; they ingraft upon it an almost everlasting fertility, which affords a perpetual interest. They procure also a permanent advantage to the country; for once combined with the soil, they cannot be severed from the ground and remain, into whatever hands the land may pass.

When all the raw produce on which labour can be bestowed with profit is obtained, the richest mine of national wealth is opened, and in this respect Bishop Berkeley was perfectly right when he asserted, that a nation with a large and fertile territory might grow richer every year, though surrounded with a wall of brass a thousand cubits high. But the soil of

(*d*). There was a law in Spain, by which individuals were even prohibited enclosing their grounds.

(*e*) Such as prohibitions to distil from corn.

a country may yield the utmost surplus of provisions and raw materials which it possibly can yield. Such a country, supposing that the inhabitants cultivate the soil only, and purchase the productions of arts and manufactures with the surplus of their raw produce from other nations, would, in that case, have reached the maximum of population, as no more capitals could be employed, and of course no more labourers maintained. An instance of that kind has, however, never occurred yet. As those who have provisions and other raw materials in superabundance want commodities of a different sort in exchange for their surplus, people are never wanting who study to supply the growers of raw produce with articles of convenience and comfort. Hence in every country large capitals are also employed upon other objects.

CHAP. IV.

Of the Employment of Capital in the Labour superadded to the raw Produce.

WERE men confined to the raw produce of the soil, their enjoyments would be extremely limited. Very few raw materials can be used in the form in which they are obtained. Almost every production requires a certain modification or transmutation. Even many of those productions which are destined for food, demand a more or less complicated preparation, and the materials for clothing, building, and other purposes, want the combination of different abilities and powers. A maintenance must be provided for the labourers, the necessary raw materials found, dwellings erected, machines set up and kept in repair, implements and tools procured. All this requires adequate capitals. Before such are accumulated, the land-holders devote only small stocks to procure the useful things they want, and entrust the raw materials to workmen under their own eyes, to whom they pay wages of labour; or they sell those materials in trifling quantities

tities to those workmen, and purchase them back again when they have been transformed into the shapes best adapted for their use. In either case the small capitals thus employed swell to a considerable amount, and constitute an important part of the wealth of a nation. They support a great number of individuals, who frequently amass fresh capitals out of the small portions which pass through their hands.

Experience, however, has shown that many commodities may be procured at a much less expence, when an undertaker manufactures them upon a large scale, and employs different hands to perform their different parts. Individuals who engage in such undertakings are called manufacturers. It is the division of labour which enables them to furnish that profusion of accommodations with which the life of man abounds in civilized society. Their capitals must be sufficiently extensive to purchase materials, to erect and repair buildings and machines, to advance the workmen's wages, and to keep the manufactured stock on hand without any interruption to the manufacture, until it can be profitably disposed of. The value of the manufactured commodity must not only replace the capital advanced for materials and wages of labour, and

and part of the fixed capital, but also yield a profit adequate to pay the usual rate of interest, and to leave a handsome compensation to the manufacturer or undertaker for his skill, and for the trouble, risk, and inconveniences attendant on the enterprize. This net profit ought to be so large that the manufacturer may live decently upon it with his family, save some part of it for times of need, and accumulate fresh capitals. When it is only adequate to his support, he may, indeed, employ the whole capital again: but the wealth of his country, as well as his own, remains stationary with respect to his enterprize. When his profit is so inconsiderable, that he consumes a part of his capital, the national wealth is a sufferer by his enterprize. Whatever he gains above his necessary support may be employed in additional profitable undertakings, and increase his wealth.

But the question is, whether the wealth of a nation be increased by the gains of the manufacturers, or whether, being taken from the pre-existing wealth of other individuals, their gains ought not rather to be considered as a mere transfer of wealth. When the profits of the manufacturer arise from his augmenting the quantity and improving the quality of his

commodity, by his diligence and skill in the direction and abridgement of labour, he produces a greater amount of useful things, and evidently helps to increase the wealth of the country. But when his profits are derived from an accidental or artificial rise in the price of his goods, without their being either improved or multiplied, others lose what he gains, and the nation is no ways benefitted, unless this higher price be chiefly paid by foreigners in commodities which have not risen in price.

The physiocrats affirm that the wealth of a nation gains no increase whatever from the productions of art and manufactures; that they occasion a mere barter of commodities, which only preserves the original wealth of the country under another form. "All the manufactured goods of a country," say they, "are paid for with that surplus of raw produce which remains, after deducting the consumption of the cultivators and land-owners; the aggregate of the manufactured goods is worth as much and no more. It represents the surplus of the raw produce, and preserves it longer in useful shapes and forms. It is only a derivative wealth which can never exceed the value of the raw pro-

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" duce

“ due given in exchange. It cannot enter into the account of national wealth. This consists simply in the annual surplus of the raw produce of the soil, which is always equal to the value of all the productions of arts and manufactures obtained in the course of the year.”

The fallacy of this argument is obvious. It is not true that the manufactured articles are not worth more than the raw produce employed in and consumed during their fabrication. Besides, food and other raw materials, manufacturers want commodities and personal services, which are not purchased with raw produce. Even the most common day-labourer purchases other commodities than victuals with part of his labour. The surplus of the value of manufactured productions, above the raw materials consumed, is a value absolutely unconnected with the value of any raw produce. It is with one part of their work only that the manufacturers represent the surplus of raw produce obtained in the country. With the remainder they obtain other valuable commodities, and one manufactured article is compensated with another without any intervention of raw produce. As far as manufactured goods exceed the value of the surplus

of the produce of the soil consumed in and during their fabrication, they actually form a real primitive increase of national wealth, which has no correspondent value in the raw produce of the country, but forms an independent new value.

Manufactures yield a net produce like agriculture. The net produce of agriculture, namely, does not proceed, as has been imagined, from the circumstance that the natural powers of the soil produce something without labour. The natural powers of the manufacturer do the same. His genius, his skill contribute as much to the profitable transmutation of raw materials and augmentation of useful commodities, as the natural properties of the soil do to the improvement and increase of the fruits of the earth. And are not fire, water, and air, which assist the manufacturer's labour, natural powers too? The net produce or rent in agriculture arises only from the land-owner having it in his option to withhold his land from cultivation, until the farmer agrees to give him part of its produce, in return for his permission to use his property for the purposes of cultivation. But it is for the very same reason that the manufacturer obtains a net produce. He withholds the genius, the skill, the talents necessary

necessary for the profitable employment of capital in manufacture, until he obtains a net profit. The only difference is this, that the land-holder is owner of external, and the manufacturer of internal nature. As both concur in producing useful things, those who want either must pay for them. Genius left to itself may sometimes produce something by way of amusement, just as soil left to itself sometimes yields valuable spontaneous productions. Both produces have no exchangeable value before they are wanted. If by a skilful application of capital the manufacturer multiplies useful things, so that their cost price is less than before, he sensibly increases the wealth of the nation. Whilst he derives a greater profit from his talent, the consumers of his commodity obtain more objects of enjoyment. The more varied and multiplied, and the cheaper the manufactured goods of a country, the greater is the power of a nation to supply its wants.

The fertility of the soil is circumscribed within certain bounds. Its cultivation admits only of a certain quantity of labour and capital, consequently it is only a certain number of individuals that can live by agricultural pursuits. Manufactures have no other limits than that their articles cannot be

multiplied beyond the value of exchange. But as human invention is every day discovering new objects of enjoyment, and fresh improvements in the accommodations of life, a progressive increase of capitals may be employed in manufactures almost *ad infinitum*. The extension of manufactures is also a principal cause of the rise in the value of provisions, and consequently of an improved agriculture. By augmenting the number of labourers, it increases the demand for food, and occasions a more perfect mode of culture in good soils, at the same time that it pays the expences for attempting the tillage of poor lands. And the value of this increased produce is not only re-placed or compensated by the manufactured goods, but whatever is manufactured above that value is a clear addition to the wealth of the nation. Besides, as manufactured goods are always wanted by the owners of raw materials, a manufacturing country, the raw produce of which is insufficient for its home consumption, is generally enabled to import such raw produce from foreign nations in exchange for its manufactured commodities.

As provisions and corn in particular are universally wanted, agriculture attracts the first attention of every civilized people. No

country

country can purchase grain from another as cheap as it may be grown at home, if the land be fertile. The cultivation of good soils is always the first occupation ; and, as long as the inhabitants are few, provisions are cheap, but labour is very dear, especially when there is a considerable exportation of food. The greatest part of the produce pays for labour, rents are unimportant, and manufactured goods are obtained from such countries where labour is cheap and provisions dear. Under such circumstances agriculture is more profitable than manufactures, as has been hitherto (1811) the case with the greatest part of the United States of America. But when the growing of corn costs more labour than what it can be purchased for from abroad, it is evidently more advantageous for a country to apply preferably to manufactures, and to leave those portions of its soil which require too much labour and capital, the produce of previous labour, in an uncultivated state, until provisions can no longer be obtained from other nations at a low price. The obloquy thrown upon England for applying so much to manufactures, and importing corn from abroad, is therefore undeserved. The effects of importation, even at a high price, are always ultimately beneficial ; they afford the most

powerful incitement to the cultivation of waste lands and poor soils.

It is an unerring principle in political economy, that the cheaper, or the smaller the quantity of labour with which, commodities of all kind are purchased or grown, the richer and the happier the nation. Every one then obtains much for his labour, enjoyments are multiplied, the surplus of commodities is enlarged, and a vast addition made to the capital of the nation. There are instances, however, in which high prices may be considered as a sign of increased and increasing opulence. When a rise in the price of commodities proceeds not from a diminution of stock, but from an increased demand, it denotes an augmented power to purchase, or greater wealth. The higher price pays more labour, a larger produce is obtained, and wealth of course increased. This is generally the case with agricultural produce. The more labour is bestowed on the soil, the more corn is grown, and this labour may be continued with advantage as long as its produce exceeds the consumption of the labourers. But the more the growing of corn costs, the higher is its price. Corn, therefore, must be dearer in proportion to the increase of the population

which

which wants to be fed, and to the growing opulence of the nation at large. A more extensive cultivation of the soil is a consequence of labour becoming cheaper by means of an increased population ; the labourers receive a smaller portion of produce as wages, and the remainder goes to augment the profits of stock. But the higher raw produce rises, the more do manufactured commodities decline in price. In proportion as the demand for the latter increases, they are multiplied and improved, and they attract large capitals and numerous skilful undertakers. By the help of machines and an intelligent subdivision of labour, much is produced at a small expence ; consequently a small quantity of corn, which costs much labour, will purchase many manufactured articles, which, from the improved progress of the workmen, cost but little labour. Manufactured goods never fail to grow cheap, in proportion as corn gets dear. Where this is the case, capitals are rapidly increased, and their competition in seeking for employment lowers the rate of interest. The labour of the undertakers grows also cheaper, because their numbers and their skill are increased.

When

When wealth and population are progressive in a country, agriculture and manufactures advance both with equal steps, but on different principles. The rents of good soils increase, and the raw produce obtains higher prices, in spite of its being augmented every year on account of those higher prices; whilst in proportion, as opulence is diffused, profits of stock and the rate of interest decline: but the aggregate of the lower profits of a rich country remains still greatly superior to the total amount of the higher profits of a poor one. The profits of manufacturers are also progressively diminishing, and their produce declining in price, because it is more multiplied by art, that is to say, produced at less expence. But though the rents of land be rising, capitals cannot be more profitably employed in land than in manufactures, for the price of land rises with its rents. He only who has purchased land in bad times is a gainer, whilst he who has bought moveable property in bad times is a sufferer by the increase of national wealth, for the rate of interest sinks, and an equal quantity of capital commands less food than before. He loses in a two-fold manner.

There are, however, many enterprizes which cannot be well conducted upon a large scale

scale. They require constant attention, and their produce not being wanted in large quantities, they cannot employ large capitals. Even in the most wealthy countries such undertakings are left to small capitalists, who combine the functions of undertaker and labourer, or who superintend an inconsiderable number of workmen. Many labours, besides, cannot be performed before-hand, but must be executed on the spot where they are wanted. The amount of capitals employed and accumulated in these occupations is in every country extensive, and always in proportion to the opulence diffused among the inhabitants.

When the employment of capital is unshackled, every undertaker chuses what he conceives the most profitable undertaking; the profits are pretty nearly upon a level and the gain of one undertaking is generally not much above that of another. If the profit of any enterprize be known to be great, it immediately attracts more capital, which circumstance soon reduces it to the general standard; or if an undertaking be attended with much risk, or if on account of the rare talents and skill which it requires, it be undertaken by a few individuals, a greater profit is enforced: but as such undertakings are generally

generally exposed to fluctuations and losses, the natural gain upon the whole is perhaps not increased. When capitals are forcibly diverted from certain employments, the undertakers are enabled to gain more, they have it in their power either to dispose of their commodities at a higher price or to sell inferior articles. They are then in the actual possession of a monopoly. When certain soils yield exclusively a commodity much in request, as the finer wines of the Cape and Hungary, in which case the higher profit goes to the land-owner in the form of rent; or when an individual is possessed of such extraordinary talents that no one can vie with him in the performances of his art; the monopoly may be called a natural one. But when it arises from privileges authorizing only one or a few individuals to carry on a certain business; or from corporations, companies, &c. which render the access to certain undertakings difficult or subject the undertakers to a long and tedious apprenticeship, the monopoly is an artificial one, and contrary to the general interests of the nation.

CHAP. V.

Of the Employment of Capital in Commerce.

COMMERCE or trade in general busies itself with the purchase of commodities for the purpose of selling them again. It conveys the superabundant commodities of one place to the spot where they are wanted. Nature has given to almost every country a peculiar production; to England her tin and her coals, to Sweden her iron, to Portugal her wines, to China her tea, and to Peru her gold and silver. Commerce takes the surplus of one country or of one individual to transfer it to the country or to the individual that is in need of that surplus. This it accomplishes by re-placing to those who have a surplus of a certain article, the value of that surplus in such commodities as they happen to want. He who makes commerce or trade his principal occupation is a merchant, tradesman, dealer, &c.

Commerce, as it depends not upon a competition but upon a combination of interests, is best supported by a perfect freedom of intercourse. The greater the range of the merchant,

chant, the more considerable are the benefits which he confers. On one hand he renders service to the growers and manufacturers by saving them the trouble of looking out for buyers, and by re-placing immediately the value of their commodities, which enables them to produce new stocks. On the other hand he renders service to the consumers by saving them the trouble of looking out for the commodities which they want. The value of a commodity is never complete before the commodity reaches its consumer. Whatever expence it incurs till it gets to his hands, is its real cost price. Were the grower or manufacturer obliged to look out for the consumer, the latter must refund him the expences this occasions ; were the consumer obliged to go to the grower or manufacturer for the commodity he wants, he must add the expences incurred to the purchase-price, in order to ascertain the whole value of the commodity. The merchant performs this office in general much cheaper than the grower, the manufacturer or the consumer ; and in most cases the price of goods is the lowest when their collection and conveyance to market are effected by individuals who, having devoted themselves exclusively to it, have acquired particular skill and dexterity in

in the business. But the industry of the merchant, like the labour of the grower and manufacturer, must be compensated. By completing the usefulness of the commodity at the lowest possible expence, he imparts to it a real additional value and consequently helps to increase the wealth of the nation.

This additional value imparted by trade to any commodity is equal to the interest of the capitals employed in its purchase, conveyance, and housing, till it reaches the consumer, and to the profits of the persons concerned in these transactions. The surplus of interest, profit, and wages of labour above the consumption necessary for the carrying on of their business which the individuals engaged in trade derive from the increased cost price of goods, is the exact proportion in which the national wealth is directly increased. Though other commodities be consumed during the operations of commerce, they yet don't amount to the whole value of the labours or services performed; part of this value remains as a fresh capital in the hands of the merchants, bankers, dealers, labourers, mariners, waggoners, warehousemen, &c., and forms a real increase of national wealth. That this additional value is paid for by the consumers in other commodities,

modities, detracts nothing from its beneficial effect, since the consumers obtain a complete equivalent in the purchased commodity.

But the principal advantage of commerce is that it enables us to get what we want by giving what we have no use for, and stimulates our industry to increase that surplus which is good for nothing else but to be exchanged for other useful commodities. It is meditately or indirectly that commerce helps most to increase the wealth of nations. It takes the surplus of whole provinces and distant countries, and conveys to them an equal value in the commodities which they want; their surplus of course would not have been produced, had it not been for the hope that commerce would fetch it away. It provides the undertakers with fresh capitals the instant their goods are finished, and by enabling them to continue their business without interruption, it keeps their activity and industry alive. It saves the consumers considerable expences, and affords them every commodity at the lowest possible price. An artificial rise in the profits of the individuals engaged in commerce has no better effect on the increase of national wealth than any other artificial rise of prices. The consumers in that case are sufferers by the surplus which

which the merchants receive improperly ; they are obliged to part with a greater portion of their property than is needful, and their means of enjoyment are abridged. The national wealth would actually be diminished if those who reap the artificial benefit might have derived equal profits from other fair employments of capital. Commerce, far from increasing national wealth, has rather a contrary tendency when its profits are effected either by monopolies, companies, corporations, and any other artificial regulations, or by accidental circumstances which drive the market price far above the cost price, and by gambling speculations.

Trade in general may be divided, with regard to the quantity of commodities sold, into wholesale and retail trade ; with regard to the countries where the purchases and sales take place, into the inland or home and foreign trade ; and with regard to its particular object, into a consumption, transit, and carrying trade.

The wholesale trade replaces the capital of the growers and manufacturers ; and the retail dealers taking their goods of the wholesale traders replace their capitals, and obtain their own advances back again, in small portions, from the consumers.

The inland or home trade is that which is carried on between the inhabitants of the same country. It consists in the exchange of the superabundant commodities of one place or province for those of another. Both trading places or provinces are gainers by this transaction. One parts with a surplus which has no value but as far as it obtains more useful commodities in exchange, and the other receives goods preferable to its own superabundant produce. Both encourage the further production of their commodities by compensating their value to each other. Their advantages are reciprocal. Each obtains from the other a capital which is more profitably employed, and if these capitals be of the same amount and equally well applied, they both grow rich in the same proportion. If one employs only native labourers and the other pays also for foreign labour, that province which employs its whole capital at home, is the greatest gainer, though the other is by no means a sufferer; only its profits are less.

Foreign commerce is either a foreign trade of consumption, or a transit, or a mere carrying trade. The first consists in conveying home produce to a foreign country and importing foreign commodities for it in return;

return; the second in conveying foreign goods through our own country to a foreign country with the assistance of either our own or foreign capital; the last in carrying foreign commodities from one foreign country to another.

The foreign trade of consumption introduces new commodities, and is in fact merely an extension of that division of labour, by which so many benefits are conferred upon the human race. If one country produced no corn, but raised twice as much cotton as it had any use for, and another had a great superfluity of corn but no materials for clothing, the commerce between the two countries would be highly beneficial for both, as it would stimulate both countries to enlarge the quantity of their exchangeable produce. A foreign trade of consumption affords, however, only half of the advantages which are derived from an inland trade. One capital only occupies the industry of the country and increases its gains, the other has the same beneficial consequences in favour of the foreign country. The nation again which furnishes the other with nothing but home produce, is more benefitted than that which is obliged to give part of foreign produce in exchange.

Yet if a nation is in want of a produce,

which either grows or may be had abroad cheaper than at home, it is evident that it cannot obtain that produce unless it consents to transmit a capital to the foreign country, and that it would sacrifice a still larger capital if it attempted to grow the produce at home, since it could have produced an equal value in other commodities and still kept a surplus if it had exchanged those commodities for the cheaper foreign produce. A nation is always a loser if it persists in producing commodities which it can purchase cheaper abroad. The quicker the merchants' capitals are replaced, the more advantageous it is to the country; they may be so much more frequently applied to the growing or producing of fresh commodities. Hence the trade with adjacent provinces and not far distant countries is more advantageous than the trade with remote provinces and far distant countries. The trade with colonies is in fact a mere extension of the home-trade. It is beneficial, because it occasions an extension of navigation, and employment for a superfluous population and superfluous capital. But a monopoly of colonial trade is by no means necessary to the commercial prosperity of a country. As for the quality of the goods imported, there is no doubt but that the nation

nation which purchases commodities of a solid substance and of long duration increases its wealth in a more substantial manner than that which imports objects of luxury, trifles, and produce that is soon consumed, but the latter derives more immediate enjoyment from its foreign commerce. The use which a nation makes of the goods purchased abroad is of no consequence whatever in ascertaining the benefit of foreign commerce; the question is merely whether a nation obtains a capital equal to its own in return. The mode of applying the commodities imported is not regulated by the trade but by the wants of the nation.

The transit trade is profitable to the merchants whose capitals are embarked in it, and to the individuals concerned in the conveyance of the foreign commodities, such as commissioners, carriers, innkeepers, mariners, &c. But the capital represented by those commodities yields no benefit to the country, except the clear profits of the individuals engaged in the transit trade.

The carrying trade affords no benefit but to the merchants whose capitals are embarked in the same. They occasion no beneficial re-production of commodities except as far as national ships are concerned.

Every merchant employs his capital preferably in that trade which promises the most ample and most certain profits. These are best secured by the inland trade. It deals with the cheapest and most necessary commodities, and is always able to obtain correct information about the respectability of its customers. The quickness of its returns facilitates the frequent employment of the same capital, and if any litigious matter occurs, the merchants are more within reach of legal redress by law-proceedings with which they are familiarly acquainted. Capitals will freely flow to the home trade as long as they find any employment. Their next direction is towards the foreign trade of consumption ; when the preference is generally given to the trade with countries that are not very distant, from motives similar to those which assign the first rank to the inland trade. No capitals of consequence are embarked in the transit and carrying trade before the foreign trade of consumption is in full vigour. Such at least is the most constant course of commerce ; its deviations proceed from circumstances peculiar to the countries where they take place.

When the capital of a nation is scarcely sufficient for its home trade, the profits of stock

stock are generally very high ; this occasions an influx of capital from countries where the profits of stock are low ; and although the foreign capitalist be actuated by the sole view of lucre, he yet confers a signal benefit on the poorer country, by enabling it to carry on its different inland concerns with the additional vigour derived from his capitals, as far, namely, as such capitals are really employed in productive undertakings. Were they not so employed, they would rather tend to impoverish the country, since the interest and the capitals must in that case be paid out of stocks already extant or previously accumulated. But the foreign trade of consumption as well as the transit and carrying trades, are in a far greater degree supported by foreign capital. When this capital is obtained as a loan, the country enjoys, independent of other advantages, the profit of the undertaker ; the interest paid to the foreigner forms but an inconsiderable part of the gain made with his stock. As long therefore as the home capital may be more profitably embarked in any other concern than that to which the foreign capital is applied, it must be advantageous to trade with foreign capital. Were the inland capitals attracted to foreign commerce by any artificial means, the profits

of stock in the home trade would rise to an unnatural height, many labourers would be left without work, and all sorts of produce, owing to the scarcity of capitals and their great profits, would bear an enormous price. A few individuals in the nation would be gainers, but the largest number by far would grievously suffer. And were the foreign capitals driven from the country, all the benefit which accrues to the nation from their application, would be lost.



CHAP. VI.

Of the Employment of Capital in procuring personal Services.

PERSONAL services, or services performed by individuals to satisfy the wants, add to the comforts or heighten the enjoyments of others, either save them time and trouble, or effect something for them which they could not have accomplished by themselves. How far such services are useful has been seen above. [B. I. CH. VII.] Their reward generally consists in material goods which must have been previously acquired by labour; it is therefore a kind of employment of capital. The acquisition of personal accomplishments or great proficiency in arts and sciences which the performance of the nobler sort of services requires, is also impossible without the assistance of previously accumulated capitals. As they do not substitute any material good in the place of what they consume, those who devote themselves to the study and to the instruction of arts and sciences, must alike be maintained, though their labours have no direct or immediate tendency to the production

tion of material wealth. Their services constitute a kind of personal wealth; they are not accounted commodities, not, as some have thought, because personal services are instantly over and leave nothing behind, for this is the case with many material things besides food. A musician affects our senses by modulating the air, that is to say, he works upon the air and renders a portion of it worth more than it was before he manufactured it. He gives it this value only for the moment, and on the spot when and where it must be consumed. A glass blower blows a quantity of liquid glass up to a great volume, and instantly bursts it for our amusement or instruction. Where is the difference? Nor is it because the performers of personal services consume material commodities, for the labourers that produce the latter do the same. Neither can it be because they may tend to absorb external wealth, for every extravagant consumption of material goods has the same tendency. A man may be ruined by spending too much in wine or in horses, as well as by keeping too many servants or giving too many concerts. The only valid reason why individuals performing personal services are not rated as wealth, seems to be because they are free persons, and free persons, unlike things, can not

not be converted into money, nor packed up among other articles of property. Wealth is their object, they cannot be the object at which they aim. Slaves being incapable of acquiring property are considered as things, and, like cattle, are actually component parts of external wealth. Personal services however, like other useful things, are exchanged for an equivalent, and the same power which purchases useful things, purchases personal services. They may be exchanged for each other or for material goods ; and if the latter are the means of paying such services, and of inducing individuals of proper dispositions and talents to perform them, personal services, in their turn, may be the means of producing and increasing external wealth. Some save the cultivators of the soil, tradesmen, manufacturers, &c, a vast deal of time ; others preserve our health, relieve our bodily pains, and heal our sores ; some communicate useful knowledge ; others increase the enjoyments and heighten the pleasures of civilized society ; some assist us to obtain a proper redress when we are wronged ; others afford that protection and security which are essential conditions to the production of wealth. All add a value to the stocks previously existing ; they furnish new equivalents for which they may be exchanged,

changed. The soldier and the judge render every portion of the capital of the nation more valuable by securing it from plunder and injury; the painter, the dramatist, and the musician increase its value (g) by enabling it to purchase the most refined enjoyments; and if it be true that happiness, which is the end of our existence, and consequently the object of our wealth, is best attained by the improvement of our mental and moral faculties, the employment of capital in the acquisition of knowledge in arts and sciences must be beneficial in general, and its particular application to agriculture, manufactures, and commerce highly advantageous. A single discovery of the astronomer, the botanist, the chemist, and others, is often more conducive to the extension and diffusion of wealth than the labours of thousands engaged in the immediate production of material riches.

The assertion that such enjoyments derive

(g) The higher sort of amusements, music, poetry, painting, statuary, and architecture are calculated to make pleasing impressions on the imagination, or to adorn and polish life. Many of them, too, make such impressions as, though not absolutely virtuous in themselves, are nearly allied to virtue, both from their innocence and from their close connexion with virtuous feelings and virtuous employments. *Gilpin's Dialogues.*

their

their value from the tangible commodities raised in the country, and from them alone, cannot be supported. It is true that men must be provided with the necessaries of life before they can think of mental accomplishments and refined enjoyments: but personal services are not rewarded with material goods only; some are exchanged for other personal services, and constitute a value of themselves. They are, besides, a sort of immaterial treasure perfectly equal to the value of the material wealth with which they are purchased; and though the capitals employed in paying public functionaries, in keeping a proper number of servants, and in cultivating literature, science and arts, do not immediately produce any tangible commodities, they yet afford enjoyments worthy to be considered as the most valuable advantages derived from wealth.

CHAP. VII.

Of productive and unproductive Labour.

NATURE never creates. Every one of its productions is a particular combination or de-composition of certain particles of matter, the quantity of which is always the same. Man also takes advantage of the physical properties of matter to make it subservient to his wants. The carpenter avails himself of the physical properties of iron and timber, to arrange certain masses of the latter in the form of stair-cases, doors, &c. The cabinet-maker shapes wood to serve as a table. To produce, in political economy, is simply to confer on certain particles of matter a form, composition or construction, which renders them useful or increases their utility. This is effected partly by nature, according to its constant producing powers, and partly by the labour of man, according to his own views and ends. Nature, be it external or internal, always assists or seconds the labour of man, for labour is the application of natural powers to useful purposes by the direction of the mind. When it bestows a

certain degree of usefulness upon an object, or when it produces useful things or properties, *labour* is called *productive*; when it produces no useful things or properties, *unproductive*. The importance of its productions, however, is not measured by their quantity, but by their quality, utility, or exchangeable value. When it produces commodities for our immediate enjoyment, labour is called immediately productive; when it produces only the means of multiplying such commodities at some future time, mediately or indirectly productive. But that *labour* is more particularly called *productive* which increases the wealth of the country; and the labour which diminishes that wealth, or keeps it stationary, is called *unproductive*. Labour can increase the national wealth only as far as there is a surplus of its produce above what the labourer consumed during its production. Any labour that does not produce more than the amount of what is consumed by the labourer during its performance, is unproductive, or does not increase the wealth of the nation. All labours may therefore be productive at one time, and unproductive at another, in proportion as they contribute to increase the wealth of the country or not.

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The labour employed in the growing of raw produce is productive, if either it yields a rent to the land-owner, or pays the interest of of the capital employed, or affords the undertaker a profit above his consumption, or lastly, if the wages of labour exceed the consumption of the labourers. But if it does neither, if there is not a surplus in any of the few alternatives, it is unproductive.

Manufactures are productive, if the value of their produce not only replaces the capitals advanced, but leaves also a surplus for interest ; if the profit of the undertaker exceeds his consumption ; or if the wages of labour exceed the value of the consumption of the labourers.

Commerce is productive, if the price of the commodities sold, besides replacing the capitals advanced, pays their interest ; if the profits they leave exceed the consumption of of the merchant ; or if the wages of the labourers employed in trade yield them a surplus above their consumption.

Personal services are productive indirectly, as far as they cause other individuals to produce a greater value than what the consumption of those who perform these services

amounts to (*h*) ; directly, as far as their performers discover fresh sources of national wealth, productive of a value exceeding by far the cost of their services. When they are neither mediately nor immediately productive, others lose what they gain, and although the individuals performing personal services may augment their own opulence, by saving a surplus above their consumption, yet the wealth of the nation receives no increase in that case, but loses their whole consumption.

To deny the productive or wealth-increasing power to manufactures and commerce, under the pretence that their produce is only equal to the surplus of the raw produce of the country, is absurd. The produce of trade and manufactures is not paid entirely with the raw produce of the country, as has been shown above, [B. II. CH. IV.] but also with goods and objects of enjoyment, that have a

(*b*) Personal services cannot be called unproductive, since they are a mere extension of that grand principle of human happiness, the division of labour. Modern societies derive their internal peace from this prudent division of their labours. The labourer pursues his labour unmolested, whilst the judge watches over the impartial administration of justice, the statesman over the welfare of the state, and the soldier repels its invaders. See Ed. Rev. vol. iv. page 358.

value independent of any raw produce ; and the surplus of that part of the equivalent which is not consumed, evidently helps to increase the wealth of the nation. To attribute a productive power to nature alone, and not to man, is equally incorrect. Nature creates or produces, in the metaphysical sense of the word, as little as man does. Both compose and de-compose certain particles of matter, and man is a part of nature like the soil. In the sense of increasing the previous value of things, he may even be said to produce more by his labour than nature alone. Value, and consequently wealth, is measured rather by the labour of man, which limits the supply of commodities, than by the powers of nature, which assist their growth.

Unproductive are all those labours which either do not produce any thing of value, or the result of which, be it material or immaterial, is of less value than the cost of the labour bestowed upon it, or the consumption of the labourer.

It must, however, be acknowledged, that it is much more difficult to ascertain the productive power of personal services, than that of such labour as produces tangible things capable of being valued according to generally received principles. Some personal services

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may afford very refined enjoyments, or procure incalculable advantages, and yet it may hardly be possible to ascertain their influence on the wealth of the nation. Even with regard to those services, the positive influence of which is obvious, it is still impossible to calculate their effect with mathematical accuracy.

To ascribe a particular productive power to the labour employed in the growing of raw produce, and especially of corn, because the producing powers of the soil assist in its growth, is as absurd as to attribute that power to nature in preference to man. The powers of nature frequently afford much greater assistance to the labours of the manufacturer than to the labour of the husbandman. Independent of the genius and skill of the undertaker, the operations of extensive manufactures are mostly carried on by the help of fire, air, and water, and their wonderful effects cannot be disputed.

CHAP. VIII.

Of Population as Cause and Effect of national Wealth.

NO wealth can be produced where there is a deficiency in population: but it does not follow that wherever there is an extensive population there must be great wealth. This proceeds chiefly from capitals employed in productive labour. Where capitals are wanting or their free application impeded, an increase of population is an increase of misery; no useful occupation can be provided for the augmented numbers of human beings, whose increase in such a state of things becomes in turn the cause of their decrease.

The members of a nation may be augmented in numbers either from within or from without, through procreation or emigration from other countries. Where the propagation of the human race takes place under the sanction of matrimony, the procreating inclination is more than sufficient to replace the natural decrease even among a people whose means are scanty. But want and misery not only weaken that inclination and diminish its

produce, they also destroy the greatest part of its effects. The children are feeble, and many are victims of an untimely death (i).

(i) The disadvantages under which the poor are labouring, with respect to food, dress, habitation, employment, and medical advice, are immense. If, for instance, the sudden transition from poor to rich food often causes loathsome diseases in young children, who is more exposed to this inconveniency than the children of distress? If children in general are more apt to catch contagious disorders than grown-up persons, how great must be the danger of unfortunate beings, dressed in unclean rags, scarcely sufficient to cover their nakedness? If the seeds of many distempers be traced in uncleanliness, where are they more profusely scattered than in the low and damp habitations of the poor? If children lose much of their native vigour and strength by sleeping in the same bed with grown-up people, and if they be thus exposed to the additional risk of being suffocated, does not direful necessity force the poor exclusively to a practice so replete with danger? If the parents be employed in occupations that injure their health, are not the children liable to the fatal inheritance of distressing maladies? And if medical advice often loses its salutary influence for not having been procured in time, what must be the effects of the almost absolute want of it among the indigent orders of society? Easy would be the task of pointing out many more instances in which the chance of life must necessarily be greater in favour of the progeny of parents whose food is wholesome, whose dress is comfortable, whose habitation is clean, and whose employment is healthful. *Fontenelle* and *Voltaire*, who both lived to a very great age, would probably have perished in their infancy, had they been born in an indigent family incapable of affording those delicate attentions and particular cares which were bestowed on their preservation. See my *Essay on Mortality among Children, in the European Magazine for April, 1805.* Vol. xlvi. No. 280.

Supported by opulence, the natural desire of propagation becomes a most abundant source of population, and this increase of numbers from within is greatly preferable to the increase from without, which, though it may sometimes afford excellent citizens, is at least always adventitious.

Population is most surely increased when the wealth of a nation is progressively augmented. The new capitals that are forthcoming from year to year, offer a fresh support to the new population, and hold out opportunities for the acquisition of wealth. It is the increase of the chief producing power, capital, which renders the benefit of an augmented population permanent, and influences its progressive extension both from within and from without, without the aid of any artificial means. The first principle of political economy with regard to population, is simply this,—whatever impedes production tends to depopulate a country, whatever increases it, is conducive to population. Land, labour, and capitals are the only sources of production, consequently the only props of population.

Agriculture, by supplying the necessaries of life in the greatest abundance, lays the first foundation for an extensive population. The human

human race cannot multiply without a plentiful supply of provisions for its support. But although all men want food, it is not necessary that all should be employed in growing food. A single individual is able to obtain from the ground much more raw produce than he can consume; he therefore transfers his surplus to others, who give him in return the produce of their labour, which generally consists in manufactured goods or sometimes in personal services.

Manufactures, by supplying the cultivators of the soil with useful commodities, are the principal cause why the husbandman grows more food than he wants for himself, and, as to effect this increase of produce, he requires the assistance of more hands, the cultivators of the soil and manufacturers increase their numbers mutually. Their increased produce is a reciprocal cause of their increased population.

Commerce, as it facilitates the exchange of produce; and personal services, as they furnish an additional exchangeable value for the commodities produced, and cause an additional expenditure of productive capitals, have both a more or less direct influence upon population. Whatever occasions an eager accumulation of capital, is favourable

to population. Where capitals abound, the demand for labour increases, and its productive application adds alike to the wealth of the country, and to the number of its inhabitants.

Were a country absolutely unconnected with any other, and in a perfectly insulated situation, its wealth and population could receive no increase but from its own productions and its own capitals. The husbandman, with the surplus of his produce, would purchase manufactured goods, and with the progressive increase of his capital, he would grow a progressively increasing stock of provisions. The manufacturer would augment his produce in the same proportion. Both would gradually employ more labourers, and consequently increase the population of the country. But there would be no room for more inhabitants than what could be maintained by the food grown in the country. The proportion of those who grow provisions to those who grow none, would be exactly equal to the proportion of the surplus of the growers to their consumption. If this surplus could support double the numbers of husbandmen, the other inhabitants would be about double their numbers. Manufacturers and others would obtain this surplus in exchange for the produce of their own labour, and every increase

crease in the numbers of the non-cultivators would necessarily cause an increase in the production of provisions. Population would reach its limits, whenever increased labour could no longer produce an increase of food. But we are not acquainted with any country that has passed through such an insulated improvement in civilization and population. We know of none where it would not be possible to obtain additional food by an increase of labour. Most countries are in some degree connected with others, and enjoy the influx of foreign labour and foreign capital. Even in China, where the population is occasionally above the level of the means of subsistence, emigrations take place every year to Manilla, Batavia, Prince of Wales' Island, and to other parts of the Eastern World. Foreign countries always have an influence upon the population of a country. A nation, the population of which is comparatively small, having large tracts of land uncultivated, from which much raw produce might be obtained with little labour, and being commercially connected with countries that want corn and other agricultural produce, increases most rapidly in population, by employing its capitals in agriculture; labour then grows dear, or, in other words, much corn is given for little labour,

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whilst in the countries that want corn, much labour is given for little corn, and manufactured commodities are cheap. Agriculture continues to be the most profitable employment in such a country, until the wages of labour sink so low that they are equal to the wages of labour in other countries ; or, in other words, until foreign countries refuse to pay a higher price for the labour of the corn country than what labour is worth in their own. But a country which is already grown so populous that it must employ much labour in the production of food, and where provisions are consequently dear, consults its real interests much better by devoting itself to manufactures and purchasing provisions in cheaper countries. Manufactures for the home and for the foreign market have alike a beneficial influence on population.

Agriculture affords every where the same limits to population. To obtain all the raw produce which a country is able to yield, can employ only a limited number of people and capitals, and it is but a certain number of individuals that can be maintained by its surplus. Manufactures are limited by the capitals employed, and by the sale of the articles manufactured ; and as both are, as it were, susceptible of being increased *ad infinitum*, population

population may be increased up to the full extent of the capitals and of the demand ; or, in other words, population may go on increasing as long as there are fresh capitals added to those already employed in manufactures, which is constantly the case as long as the demand for manufactured commodities is upon the increase. Agriculture, besides, requires large tracts of land to produce its commodities, whilst manufactures, in general, want only dwelling-houses, workshops, and magazines.

But whether it be better for a country to owe the increase of its population to agriculture or to manufactures must be determined by the nature and situation of the country, and by the consideration which of the two produces has the greatest exchangeable value against the necessary means of supply, or which finds the readiest sale. Wherever trade is perfectly free, and no obstacles left in the way of productive labour, a nation advanced in knowledge and civilization, is never long in discovering what is most conducive to its interests. Nothing obstructs population but the want of food. The easier it is for every class of inhabitants to get a living, or to procure the supply necessary for their accustomed way of life, the greater is the inclination

clination to marry, and to perpetuate the human race. As nature contributes more or less to the supply of the wants of man, and as the habitual ways of life require more or less in different countries, it may be affirmed that the progress of population is likely to be most rapid, whenever a nation is satisfied with a small quantity of supplies (*k*); when the inhabitants of a country are fond of a particular kind of food that is grown at home in great abundance with little labour (*l*); when a nation easily obtains the supply of its wants

(*k*) But the people who can live upon a little are not happy on that account: the Goths and Vandals lived upon a little, and yet they marched in search of plenty into other climates. *De Chatelur's Essay sur la félicité publique. Tom. i. Chap. vi. page 202 of the English Translation.* Another ingenious writer says: "Quand on se borne à vivre, " l'Etat languit et le flambeau de l'industrie ne jette plus " que des étincelles mourantes." *Bentham. Traité de Legislation. Tom. ii. Chap. x. page 44.*

(*l*) When Sir John Carr inquired into the cause of the great population of Ireland, he was answered: "By " Jafus, Sir, it's all the potatoe." An acre of potatoes is supposed to yield eight times more food than an acre of wheat. In 1804 Mr. Newenham estimated the population of Ireland at 5,400,000; and it is conjectured that in 1837 it will contain 8,413,224, and in 1883, 16,826,448 inhabitants. But potatoes, as the exclusive food of man, are as much a sign of increasing poverty as Rumford soups. The majority of the Prussians live upon herrings and potatoes, what could induce them to resist their invaders?

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from a favourable soil and climate; when a great number of individuals are employed in productive labour; and when there is an easy communication with rich nations, ready to purchase the produce of their industry. Those who consume any produce without replacing it by something of value, prevent the existence of useful labourers in proportion to the quantum of their consumption. Voluntary celibacy, epidemics, and losses by war, are evils which are soon repaired, in countries where every inhabitant is active and industrious: but wherever herds of idlers and useless consumers are suffered to devour the produce of industry without any beneficial return, population has to struggle with an almost insurmountable obstacle.

CHAP. IX.

Of the Influence of political Institutions upon the Increase of the Wealth of Nations.

THE progress of national wealth is accelerated or retarded according to the degree in which the law provides for the freedom of individuals and the security of property. Necessity is the parent of all governments: but the relative rights of the members of a community are not always established by general consent. They are often the result of adventitious circumstances, which influence the prosperity of nations for a considerable length of time. When property is insecure, and the public peace is frequently disturbed by ferocious contentions, industry is of no avail. Land is then the only property that is in some degree safe; land-owners are the only rich and powerful individuals, and the lack-lands to support themselves and their families receive their maintenance in the shape of wages at their hands. Unprotected by government, and obliged to repel every attack upon their property by force alone, the land-holders strive to extend their possessions in order

order to obtain a greater physical strength, that is to say, a larger number of fighting men. To fight for them is the condition on which they consent to provide their followers with food. The cultivation of the soil is entrusted to menial servants scantily supplied with the necessaries of life, and the surplus of the produce is shared in unequal portions between the land-owner and his family, and the champions engaged in his defence, whose numbers constitute his strength in war, and his pomp and pride in the short days of peace. Under such circumstances wealth centres in the hands of a few great lords, who, after having contributed what is necessary to an imperfect cultivation of their lands, consume the surplus with their military followers, and purchase a small stock of foreign luxuries. Few capitals are accumulated, as the annual produce is generally consumed every year, without leaving any considerable surplus behind.

Even after a government has acquired sufficient vigour effectually to protect property, it is not able immediately to correct the inauspicious regulations of the preceding periods. The property of the soil remains in the hands of a few grandees, who dictate to the rest of the inhabitants the conditions on which they may possess some parcels, or be

permitted to cultivate some portions, of land. Slavery, bondage, vassalage, villainage, are the remnants of earlier barbarous times.

Land is however best cultivated when the husbandman is sure to enjoy the whole produce which his labour obtains from the soil; when he is not restricted by the demands or regulations of any other individual, or when free labourers, knowing that they derive all the advantages which they can reasonably expect from their labour, exert themselves to the utmost of their powers. Every restriction of the right of property which is not a consequence of the law of nature, restricts also the use of property, and every limitation of the freedom of individuals which prevents their deriving the greatest advantages from their active exertions, abates their zeal and crushes their industry. Restrictions with regard to the purchase of landed estates lessen the value of land and prevent that man from getting it who would use it most profitably. Equally hurtful are restrictions which interfere with the division or distribution of the fields, as rights of commonage; and such as pretend to regulate the husbandry or mode of cultivation of the country. Not less pernicious are regulations which limit the liberty of the labourers. They diminish the produce of labour

bour and mar the increase of national wealth; though they may possibly be profitable to those in whose favour they are enacted. But the advantage of a few individuals can never counterbalance the disadvantage which accrues to the country at large. It is in the very nature of the labour of a slave or bondsmen that it cannot be performed with the same care as that of a well-paid freeman. Whatever might have been performed additionally in the same given time is lost to the nation, independent of the consideration that such forced labourers frequently do the proprietor real harm, merely out of spite. Equally injurious are all regulations which tie some people to the labour of the fields, whilst they keep off those who would work with more zeal. The free disposal of landed property, and the perfect freedom of land-owners and cultivators in the use of the soil, are the first and most necessary conditions on which the improvement of agriculture depends. Any police regulation which trenches upon that liberty is an obstacle to the increase of national wealth.

In the same way as the cultivators of the soil are restricted by the laws of some countries, manufacturers or handicraftsmen restrict each other, and many governments support

such regulations under the erroneous idea that they are promoting the public advantage. The most obnoxious restrictions are, those which confine certain trades to certain spots ; those which limit the carrying on of others to certain associations, corporations or companies ; and those which leave some trades to a few individuals exclusively, or reserve them for the state. The first of these regulations is perfectly useless ; wherever trade is free, it never fails to be attracted to the places where it can be carried on with the greatest advantage. Any interference of government is unnecessary, unless the security, health, or convenience of the generality of the inhabitants be concerned ; these are objects to which other advantages ought to be sacrificed, though the best way after all is simply to allow obnoxious trades to be removed as a public nuisance by indictment.

Corporations have been established under the supposition that an apprenticeship of a certain length of time is the surest way of providing clever masters, that these communicate their ingenuity to each other by means of such associations, that their prosperity is respectively insured by their being restricted to a limited number of apprentices, and that their meetings cherish principles of honour

honour and benevolence among themselves. But experience has shown that there is too much time lost in long apprenticeships, and that it would be a greater incentive to learn and to work diligently, if the apprentices were paid for their labour in proportion to their increasing abilities and industry; that such associations give rise to foolish expences and unnecessary meetings, in which much time is wasted; and that they enable the members to sell their goods at a higher price than if the competition were left open. Each of these circumstances tends to diminish the wealth of a nation. Neither are the other pretended advantages able to counterbalance the pernicious consequences of such associations. A protracted apprenticeship does not form clever workmen. No person inquires how long an artist has learnt his trade; his abilities are judged by his work. Much less do the masters improve in their frequent meetings. To keep up old ways and exploded workmanship is the particular vice of corporations; their members are afraid of any attempt to innovate being hooted. Free workmen on the contrary always discover new advantages. Corporations are beneficial to the ignorant and unskilful only. Clever masters, limited to incorporated labourers, are unable to answer

the increasing demands of their customers, part of whom are forced to put up with the work of a less skilled workman. This diminishes consumption and stifles industry. That the frequent meetings of corporated labourers tend to cherish principles of honour and benevolence may be true, but this advantage may be obtained by friendly societies without regular corporations. It was only in the beginnings of civilized states that such associations were productive of some good. In the present stage of civilization they are not only superfluous, but injurious. The restraints which have been latterly imposed upon them in some countries are mere palliatives; they do not go to the root of the evil.

Any business carried on by government for the benefit of the state is always hurtful to the nation at large. The individuals to whom such business must be entrusted cost more than what the profits of a private undertaker and the wages of his labourers would amount to altogether. They are not actuated by the same motives of interest, and of course they neither obtain the largest possible profit, nor do they get the work done with the greatest economy possible. To be well managed, business requires a skilful undertaker, who orders and directs every thing, and who alone is en-

titled to its profits. The greater the number of partners in a concern, the worse it is commonly managed. When the state turns tradesman, it is besides apt to lose sight of the general interest of the nation.

If it be the advantage of the private tradesman to raise the price of his particular commodity, the state is still more inclined to do so, because it has the power of preventing others from following the same business; and being but an indifferent tradesman, it is indeed obliged to resort to this unjust measure in order to protect itself against losses. Thus its monopoly raises the price of its goods; it takes more commodities in exchange from the people, than they would have occasion to pay if the trade were in private hands, that is to say, it diminishes the wealth of the nation. The same fatal consequences are unavoidable, when the state allows any company or any private individual to undertake a trade exclusively, or to deal exclusively in any particular commodity. Such privileges diminish the competition of sellers, and raise the price of the commodity to the nation, which else would obtain the same much cheaper, and of course grow richer. Privileges and monopolies may, however, be of some service when new commodities are to

be introduced. As there is some risk attached to the commencement of a new undertaking, the hardship in some cases would not be too great for a nation, if it paid the new commodity a little dearer for a time, to indemnify the first undertaker for his sacrifices: but as soon as his losses are covered, the privilege ought to be annulled. A trade which a nation is obliged to support continually, can never be profitable to a country. Premiums, for a fixed moderate length of time, are therefore preferable to privileges and monopolies; and patents, such as are granted in England to the inventors of any new articles, are still better calculated to accomplish the same purpose.

CHAP. X.

Of Police Regulations in commercial Concerns.

MOST of the governments of the modern states of Europe have attempted to increase the wealth of nations, by directing the trading concerns of the people. At one time they proceeded upon the principle, that a country is the richer, the larger the quantity of its coin. All their efforts were directed to keep the metallic money or coin in the country, and to draw more into it. In order to obtain this end with greater certainty, it was considered as highly necessary that foreign commodities, particularly such as could be produced in the country, though they might be imported much cheaper, should not be admitted. The importation of such goods was therefore either totally prohibited or burthened with very heavy imposts. The exportation of home-manufactured commodities in the most finished state, was encouraged by all possible means, even by premiums, whilst that of such raw produce, as admitted of any labour being superadded, was severely prohibited. But as many manufactures re-

quire foreign raw materials to work upon, their importation and that of commodities that cannot well be dispensed with, was permitted, and particular favour or a preference shown to those nations with which the balance of trade was supposed to be favourable, that is to say, from which ready money was received in addition to their goods. An accurate knowledge of the particular and general balance of trade was, therefore, regarded as a matter of the utmost consequence. To ascertain it as exactly as possible, lists of exports and imports were kept by the custom-house and excise offices, and the course of exchange was carefully watched to judge of the benefits of commerce from the favourableness or unfavourableness of the exchange. If the country received more commodities from other nations than it sold to them, it must liquidate the balance with ready money, and the exchange is against it. From both circumstances it was inferred that the country was a loser, and all sorts of means were devised to obviate the disadvantage. To oblige the inhabitants either to do without the foreign goods, or to purchase them with their own manufactured commodities, the exportation of coin and of the precious metals in general was prohibited ; home productions were

were encouraged by monopolies, privileges, premiums, advances and bounties; treaties of commerce were entered into, and the commercial colonies of the nation were forbid communicating with any other than the mother country.

But the main principle of this system that the wealth of a nation is to be estimated by its stock of ready money or coin, is erroneous. The wealth of a nation consists in the surplus of its annual produce above its expenditure, or in its stock of useful commodities. The wealthier the nation is, the smaller is the proportion which money bears to its wealth. Money is of no use but to exchange commodities. If a nation receives ever so much coin, it is still obliged to send it abroad to purchase the commodities it wants when it has no produce of its own to offer in exchange. Commodities attract money; the latter may be the effect, but it is not always the cause of wealth. Nothing is easier to be had than gold and silver, and a rich country may substitute banking accounts, paper money, and promissory notes, to the precious metals, and that with less risk or more safety in proportion to its wealth. The supposition that a country is a loser for buying with ready money, and that it grows richer for the money which it receives

receives at the striking of its annual balances, is also founded in error. It places the nation in the situation of a merchant who, at the end of each year, settles his accounts with all the individuals with whom he has had any commercial transactions. When the country pays more money than it takes, its wealth is represented as diminishing ; the balance of trade is against it. When it receives a surplus in money above its disbursements, it is represented as being grown richer, the balance of trade is in its favour. But this doctrine of balances is delusive. Custom-house registers are incomplete, incorrect, and unsafe, and the course of exchange is regulated by many circumstances unconnected with the favourable or unfavourable state of accounts between two countries. Nothing besides can be inferred from any balance of trade, be it ever so correct, respecting the increase or diminution of national wealth. A country never parts with its money, but for commodities which it prefers to money. If the returns, for instance, are corn, timber, cotton, &c. the country is not the poorer for having those commodities instead of coin. They must be rather more advantageous, or else they would not have been purchased. Even if, in lieu of getting useful commodities, a nation carried on foreign

foreign wars for its safety and protection, the money is well employed, though the wealth of the nation be not visibly increased. The reason of this non-increase of wealth does not lay in the exportation of the coin, it lays in the circumstance that nothing is received for it in return, except successful protection against hostile attacks, which would prove more fatal to the country than the parting with a portion of its wealth for its safety. And in every instance the money wanted for foreign payments must have been previously acquired by the industry of the nation. Whenever money is taken for any produce, it is with the view to purchase other commodities, and if such commodities are to be obtained in foreign countries only, the desire of arriving at their possession affords a fresh incitement to industry. Money would not have been attracted in such large quantities to the country, had not the wish to possess the foreign commodity been excited.

A free trade of consumption between two provinces or two countries is always advantageous to both, though one may derive a greater benefit from its trade than the other. The trading profits of a country may vary from one time to the other; but a country never grows poorer for its commercial transactions, it is always benefitted by

by a regular commerce. The countries trading with each other are mutually increasing their annual income. When both exchange home produce against each other, each obtains an equivalent in productions, grown in the other country, each enables the other to devote additional attention to the growth of those commodities, and as every nation is benefitted by its foreign purchases, since it sells the commodities at a higher price than it has bought them, the respective foreign productions occasion in each country an increased industry, consequently the wealth of one receives nearly as great an increase as that of the other. But if one nation trades with its home produce, and the other purchases it with foreign commodities only, gold, for instance, which it has bought in another remote country, the profit of the country which pays the inland productions of its neighbour with gold, is inferior to that which pays it with home produce, because its capital takes a very extensive round about, and does not occupy the industry of its inhabitants during the time that it performs this circuitous journey. A rich country always enriches the poor one with its foreign trade of consumption. The rich country has many wants, and pays well for their supply; consequently

quently the labour of the poor country is beneficially employed, and the rich country is also a gainer ; it can purchase labour, and particularly the produce of agricultural labour, nowhere so cheap. Both countries procure advantages to each other ; the poor country increases in opulence, without impoverishing the wealthier one. On the contrary, it confers a solid benefit on the rich country by augmenting its power to purchase.

Though it be perfectly true that one branch of foreign commerce may be more profitable than another, yet the means, which the system of keeping the metallic money in the country employs, are far from calculated to procure the advantages which that system has in view. They have rather a contrary tendency. Independent of the inutility and the fatal effects of prohibiting the exportation of coin, such a prohibition cannot be obeyed. The merchant must pay his foreign debts, and if he can accomplish his purpose best with metallic money he undoubtedly will : but in that case he incurs additional charges for the circuitous road which the coin must take and the attendant risk. On both accounts the inland consumers are obliged to pay dearer for the commodities which he sells them. The national wealth is equally diminished, whether

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the merchant be forced to export a greater value in other commodities, or to send the metallic money to his correspondents by a dangerous and expensive round-about way.

Monopolies and privileges, by raising the prices of certain commodities, take unnecessarily more from the buyers than they ought, and diminish their power to purchase. Were the capital of the monopolist and privileged merchant employed in a different production without any monopoly or privilege, it would also produce a greater value, and the country would be a gainer.

Premiums are extraordinary rewards which the state grants sometimes for the production and sometimes for the exportation of certain commodities. When they are given to favour or to extend the sale of a new useful production, or to recompense a beneficial invention, they may be justified. By encouraging extraordinary ingenuity, they act as an incentive to the emulation of the workmen. But when they are granted to raise in the country a commodity which could not be produced, or to promote an exportation that could not take place without a premium, they necessarily diminish the wealth of the nation. When their object is to encourage the production of a certain commodity, the nation pays an addi-

additional premium for an article which might be obtained from abroad without that addition ; and, were it not for this premium, the capitals engaged in its production would produce some other commodity worth at least as much as that which is produced with the assistance of the premium. When premiums are granted in the shape of a bounty, that is to say, as an encouragement for exportation to enter into competition with alien merchants in foreign markets, the nation is doubly a sufferer, since it is forced to pay the bounty, and, in addition to that, the higher price of the commodity which the bounty never fails to occasion at home, and which generally exceeds the amount of the premium. There are, however, a few instances in which premiums of this kind may be considered as expedient, for instance, to prevent a sudden obstruction to a certain trade, and consequently to guard against a greater imminent evil, or to attract commodities of the first necessity in cases of emergency. Still they are always sacrifices which, though they may sometimes be justified on the score of warding off a greater inconvenience, or remedying an urgent want, can never be conducive to increase the wealth of the country. They are generally occasioned by erroneous antecedent regulations ;
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the permanent prosperity of a nation is always best consulted when a free course is left to the natural progress of trade and industry. Premiums have also this disadvantage in common with monopolies and privileges, that they draw labour and capital to trades on which they could not have been bestowed, at least not in the same degree, had it not been for the premium by which they are supported and encouraged.

When premiums are merely a compensation for an impost previously paid, which might impede the exportation of a certain commodity, they are called drawbacks. Though they do not attract industry and capitals to channels into which the latter would not have flown of themselves, it yet would be far more advantageous if the duty were lowered upon the commodity in general, and paid in equal shares by the foreign and home consumer, on both of whom it would fall lightly, and the home consumer would be relieved of part of his burthen.

To encourage the production of any commodity by advances of money from the state is rarely advantageous. The request of such advances always denotes that there is something hazardous in the undertaking. If it promised a sure gain, and the undertaker enjoyed

enjoyed any credit, private capitals would not be wanting for the enterprize ; the state, under that supposition, stands in the way of private capitalists. But if the undertaking does not hold out any fair prospect of gain, or the undertaker has no credit, the state is playing a dangerous game with the public money entrusted to its care.

The attempt to regulate the exports and imports of a country is not less prejudicial. To prohibit the importation of certain commodities tends to raise the prices of those commodities at home ; to prohibit the exportation of certain productions lowers their prices. In the first instance the nation loses the benefit of cheaper prices ; no one is a gainer but the small number of sellers, and these too would very likely have gained as much in any other line of business, had not the prohibition of the foreign article attracted them to that trade. In the second instance, the home producers lose the benefit of higher prices. Although the circumstance that the raw material is kept in the country, may enable the natives to purchase this raw material a little cheaper, and the manufacturer to extend his manufacture in consequence, it yet operates upon the whole against the production of this raw produce, diminishes

nishes its quantity, and damps the zeal to improve it. Experience shows besides that it is not so much the cheapness of the raw material, but the skill of the manufacturers which renders manufactured articles good and cheap; there is no danger in the competition of the foreign manufacturer if he be obliged to fetch the raw material, the country having in that case the start of the charges on conveyance both ways. Should however the home manufacturer not be equally skilled with, or rather greatly behind the foreign manufacturer, it is far more advantageous to leave the business to foreigners, and to purchase their manufactured article with any other commodity, in the production of which the country excels. Whether prohibiting the exportation of any produce can ever be defended on the plea of necessity is a question foreign to the present inquiry. The principle that ought to be clearly established in political economy, is simply, that prohibitions with regard to either importation or exportation are not means of increasing the wealth of nations.

The object of commercial treaties is in general to insure to those nations, with which the balance of trade is supposed to be favourable, the monopoly of their produce in

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our country, and to obtain the monopoly of our productions in their country. But by this very circumstance that our country is to purchase only in theirs, it is deprived of the benefit of the lower prices at which the same commodities might be obtained from other foreign nations, and loses an advantageous transit and carrying trade. Whether the sale of the home productions be actually increased in a manner perfectly adequate to over-balance those losses, is extremely problematical, without adverting here to the numerous political disadvantages with which such commercial treaties are infallibly pregnant. The time is perhaps not far distant when the highly extolled commercial treaty concluded between Great Britain and Portugal, and known by the name of Methuen's Treaty, will be seen in its true light (h). Who knows how far the admission of French wines at a duty equal to that of the wines of Portugal might have improved the intercourse between

(m) *Methuen's* brother was a principal merchant in the woollen line, and wrote to his brother the ambassador at Lisbon, desiring him to state to the Portuguese ministers, that the wines of Portugal, particularly those produced on the estates of the nobles, would have a great and secure sale in England, if His Portuguese Majesty would revoke the prohibition upon foreign cloth, so that English cloth might be admitted. *Appendix to Robert Southey's Letters during a Short Residence in Spain and Portugal.*

France and England, and contributed to diminish that national antipathy which has so greatly assisted the political quarrels that have often been wantonly raised between the two governments, and have caused the two most intelligent nations of Europe to rejoice in their respective misfortunes !

The restrictions imposed upon the trade of commercial colonies aim chiefly at insuring to the mother country the monopoly of its own productions, and at obtaining the colonial produce at a cheaper rate. They are equally disadvantageous to the colonies and to other countries. The former are forced to pay dearer for the productions of the mother country, which they might purchase at a less price elsewhere, and to sell the mother country their own produce at prices inferior to what it might command in other countries, which are completely excluded from all commerce with the colonies. It is true that the mother country has the advantage of selling many of its productions dearer and buying the colonial produce cheaper. But as such a system of exclusion and restriction is apt to excite the jealousy of foreign nations, and to create ill will in the colonies, it forces the mother country to keep up a strong navy for the protection of its distant colonies,

colonies, and often involves it in expensive wars. The colonial trade draws also large capitals, which would have employed a number of labourers in the mother country and procured it more solid advantages. And after all, it is not absolutely certain that the colonial produce would be higher in price if its sale were left unrestricted, since a free trade never fails to encourage production.

Upon the whole, it is evident that the state contributes little or nothing to the increase of national wealth by police regulations respecting trade and commerce. The measures hitherto adopted for that purpose generally produce effects diametrically opposite to those intended. The wisest policy is to leave trade and commerce to their own natural and unshackled progress (n). To prevent the pro-

(n) If every law of regulation either of internal or external trade were repealed, with the exception of those necessary for the collection of revenue, it would be an undoubted benefit to commerce as well as to the community at large. An avowed system of leaving things to take their own course, and of not listening to the interested solicitations of one class or another for relief whenever the imprudence of speculation has occasioned losses, would sooner than any artificial remedy, re-produce that equilibrium of demand and supply which the ardour of gain will frequently derange, but which the same cause, when left alone, will as infallibly restore. *Alex. Baring's Inquiry into the Orders of Council, &c.* 1808, page 133.

ductive powers being disturbed, and the gradual increase of national wealth being impeded, is the particular province of a good police; its measures ought to protect persons and property, not only against violent attacks, but also against swindling schemes and ruinous gambling speculations; they ought to facilitate the communication of the provinces with each other, render that communication safe, watch over frauds in weights and measures, and over adulterations of the coin, repress wanton begging, and remove every obstacle to useful activity.

CHAP. XI.

Of the Administration of Justice.

THE institutions of a country for the administration of justice are among its most important establishments; they frequently come in contact with individual comfort and prosperity. The laws themselves, by which the rights of the members of the community are regulated, have not a greater influence on the national wealth, than their proper application and prompt execution by an impartial administration of justice. The consciousness that our persons are free and our property safe, derived from the steady operation of the laws and their disinterested application, is an incentive to industry. But the uncertainty of the law, and a dilatory and partial administration of justice, occasion a great waste in the productive powers. They weaken the inclination to acquire property, and invite the ill-disposed to quarrels and frauds. Laws which fix the relative rights of individuals, secure and facilitate legal claims, and subject their smallest violation or infraction to proportion-

ate punishment, and an administration of justice which promptly comes to the relief of the oppressed, are alike conducive to the prosperity of a nation. The time spent in protracted litigations is a loss to productive labour. The shorter the civil process, the greater the benefit. Wherever interested lawyers keep up the spirit of idle contentions, bad faith and double dealing are encouraged, and baneful evils follow in their train.

Laws approach the nearest to perfection when great play is left to the freedom of persons and property. Unnecessary and over numerous modifications of ranks, privileges, monopolies ; a constant proneness to legislate in matters of trade and commerce ; the aiming at collateral objects in the levying of the public revenue ; the rage of heaping statute upon statute on every trivial occasion ; and whatever may tend to make the laws cumbersome and complicated, are evils of more or less serious consequence, in proportion to the purity of the tribunals to which the administration of justice is entrusted. If the uncertainty of the law be a matter of triumph with the wicked, in a country remarkable for its good laws and for a still better administration of justice, what must be its consequences among less favoured nations ? The loss of time,

time, capital, and labour among a people addicted to litigation and idle contentions, in countries cursed with a code of bad laws and an indifferent administration of justice, is indeed incalculable.

CHAP. XII.

Of the different Means of providing for the public Expences of the State.

THE state may be considered as a machine necessary to the foundation, preservation, and augmentation of the wealth of nations. The community for whose use it operates must of course bear the expences of this machine. By protecting the individual rights of every member of the community, the state is in fact a co-operator in the production of wealth. That this machine ought to be maintained at as little an expence as is compatible with the attainment of its object, and that it ought to abridge the property of individuals as little as possible, are consequences of what we have asserted to be the end which the state ought to have in view, that is to say, the happiness of the community. Economy in the application of the means by which the state is supported, and prudence in their collection, that taxes may not obstruct the acquisition of property, are two principles that ought never to be neglected. The wants of the state, whatever

may be their extent, must be fully supplied, and they can only be supplied by contributions levied on the internal resources of the country. It is, however, evident, that as the nation is obliged to provide for the public expences out of its income, the more the taxes swallow of this national income, the less is left to the contributors for the supply of their own private wants and for the accumulation of capitals to be employed in the production of fresh commodities. If the taxes touch the capital itself, they destroy the source of wealth; if they obstruct the labourer in his industry, and beset the employment of capital with difficulties, they weaken the principal sources of wealth. But when the taxes absorb only a small part of the income of the nation; when one class of individuals, or one individual is not more burthened than the other; and when circuitous ways are avoided in the collection of taxes, a larger capital is left in productive activity to increase the national wealth. Simple and self-evident as these principles appear to be, their application is considered as liable to many difficulties, and they have been more or less disregarded by all states.

The usual means which governments have adopted to obtain the expences necessary for the

the support of the state, may be reduced to demesnes, royalties, and taxes.

Demesnes, crown lands, or domains, are lands belonging to the state, out of the net produce of which, part of the public expences are defrayed. Whatever may be their origin, whether the private property of the chief magistrate, and generously devoted by him to the public service, or whether they were originally set apart to be applied to the exigencies of the state, or purchased, inherited, or conquered, the individual members of the nation lose the rents of such crown lands. At first sight, indeed, nothing appears more advantageous than to devote a portion of the landed property of the nation to the exigencies of the state, to trust its management to the government of the country, and to free the individual members of the nation from all further demands upon their property. Were the revenue derived from demesnes sufficient to defray the state expences, this way of providing for them would actually be the best, and the bad management of such lands would readily be overlooked. But in proportion as the wealth of nations expands, the support of the state becomes more expensive. In our days, the net produce of the demesnes constitutes, in almost every country, the smallest

part

part of the public revenue, and the attempt to provide for the increased wants of the state by similar sacrifices of portions of land, would, in many countries, convert the whole surface of the soil into crown lands. The benefit which demesnes would confer on the community, were they alone sufficient for its public expences, is no longer within the reach of any great nation. Independent of the crown lands, the net produce of which is set apart for the public revenue, nations must submit to all sorts of taxes ; and it is then, in particular, that they feel the heavy burthen of demesnes (o), which deprives them of a far greater

(o) In France, the crown lands, which are still called the national domains, are vastly more numerous than under the old government. There has been an annexation of all the forests, formerly held by corporate bodies and the emigrants, of large districts in the conquered countries, and of all woods whatever, above the extent of 300 acres. In 1789, the demesnes in France yielded 50 millions of francs ; in 1802, they yielded, with the register dues, 190 millions, (*Statistique de la France*,) and in 1806, the forests alone, 70 millions. An intelligent American traveller in a *Letter on the Genius of the French Government* in 1810, reprobates in the severest terms this most oppressive and improvident mode of raising a revenue, as a bar to that improvement which would result from the more productive care of individual interest. An immense territory, of more than five millions of acres, is withheld from the public, in the most prejudicial manner, and gives employment to 8000 government officers, called conservators, inspectors,

greater share of wealth than what the state actually derives from them. Lands in the hands of government produce much less than in the hands of private proprietors, because the state is forced to leave their management and superintendence to others; it consumes the whole net produce, and can apply no part of it to the improvement of the soil; and even when it attempts such improvements, they cost much more and succeed much less than when they are undertaken by private individuals. Hence the total produce of crown lands is always much smaller than it would be under a better management. They bear a much smaller rent, particularly if we take into the account what their superintendence, buildings, immunities, &c. cost the nation more than they would do in private hands; there is, besides, a much smaller produce distributed among the undertakers, capitalists, and labourers employed in their cultivation.

spectors, surveyors, guards, &c. and to complete the injury, no individual proprietor of wood-land can cut down his timber, under a heavy penalty, without giving six months notice of his intention to one of the conservators, upon whose report the permission of government is granted or refused. This gives to the French government a virtual monopoly of the sale of wood. In Prussia, there are still 516 domanial estates.

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Were demesnes converted into private property, their former rent might be paid to government in some other shape. By a better management, they would yield a far higher rent to the new proprietors, more labourers would draw wages from them, and as a larger capital would be employed, the capitalist would also obtain more interest, consequently the nation would be benefitted in proportion to the extent and previous bad administration of the demesnes. In many countries there is still another disadvantage connected with crown lands. They draw government over, as it were, to the party of those who, enjoying immunities or exemptions from taxes, burthen the other land-owners with greater charges, and enrich themselves at the expence of others. However when states cannot be prevailed upon to alienate their demesnes, they ought, at least, to assimilate them as much as possible to private property, by subjecting them to all the taxes of the country, and by letting them out to farmers in such a way as to have nothing to do with their superintendence, but simply to receive the rents. In that case, long leases, which afford opportunities to display talents and to acquire wealth, are the best, as they almost

almost give the farmers the interest of private proprietors.

Royalties are the exclusive right of the state, to carry on certain trades, with the sole view of deriving a public revenue from them, such as mining, coining (*p*), post coaches, manufactures, repairs of high ways, games of hazard, commercial speculations, &c. But the state is always a bad tradesman; it must get every thing done at a great expence, by agents, who, in general, are more interested in enriching themselves than in benefitting the state, or who, even when they are divested of too large a share of self-interest, never feel such a powerful incitement to industry and diligence in conducting a business of that kind, as an individual who works for his own immediate benefit. The state, besides, cannot enjoy any profit from trade, unless it appropriates to itself, either by direct or indirect means, the monopoly of that trade, and forces the nation to purchase the commodity at a higher price than it might else be had. And as the commodity costs the state much more than it would cost to a private undertaker, its gains are far from compensating the

(*p*) The seignorage on coin in France produced in 1807 about 400,000 francs.

loss which it brings upon the nation. Were the trade left free, the nation would employ the money which it pays to the state for its commodity, in purchasing the article and paying in the shape of a tax what government gains by its monopoly, and it would still have a considerable surplus left above the price of the commodity and the tax paid to the state. The greater the extent of the trades carried on by the state, the greater is its interest in injuring other tradesmen that come in collision with it; the more branches of industry are withheld from the people to whom they ought to be left unimpaired, and the more is taken from the subjects. Thus the state raises an unnecessary obstruction to the increase of national wealth, since it might obtain the same revenue at less expence, and in a way far more conducive to the prosperity of the nation. Were some risks to be run in the beginning of a profitable enterprize, so as to deter private undertakers, it would yet be more advantageous for government to induce private individuals, by advances or premiums, to embark in the trade, than to undertake it itself. Even trades which, for the sake of order and safety, want the sanction of public authority, such as coining and others, are better managed by private undertakers. And

should public security absolutely require any business to be carried on by the state, it yet ought never to be considered as a good source of revenue. Monopolies always have the most pernicious effects on the wealth of the nation, without any advantage to government; they are therefore at all times an evil. And this evil is of a still more alarming consequence when the trade in itself is not only useless but injurious to the community, such as lotteries, and more especially those known abroad by the name of Lottos (q).

Lotteries in general are a mere gambling speculation, by which money is collected out of the pockets of many to return it, considerably reduced in its amount, according to the

(q) A *Lotto* is a Lottery of ninety numbers, from one to ninety, upon one, two, three, or any indefinite number of which the persons who play in the lottery may stake any sum they please. Every fortnight or every three weeks the lottery is drawn, that is to say, five numbers are taken out of a wheel which contains the whole ninety. All those who have staked their money upon one, two, three, four, or five of the fortunate numbers are gainers in proportion to their stakes. The guessing of one number is rewarded with fifteen times the stake, and is called an *Extract*; that of two, with 270 times the stake, and is called an *Ambe*; that of three, with 5000 times the stake, and is called a *Terne*, &c. But it is evident from the proportion of the first chance, which should be 18 instead of 15 times the stake, that the chances are considerably against the players.

dictates

dictates of a blind chance, to the pockets of a few. Nothing whatever is gained for the nation. On the contrary, the time and labour bestowed upon the game is necessarily lost, and the whole capital embarked in the Lottery is withdrawn from productive labour; both these circumstances are equally prejudicial to the wealth of nations. Lottos especially, by admitting very low stakes, are mischievous beyond all calculation in the excess to which they are encouraged in France, Prussia, Denmark (*r*), &c. When the tickets of such Lotteries as the English are very high, they are mostly purchased by wealthy individuals, or such who being able to calculate the chances of gain are not diverted from useful business by foolish hopes. It is their being split into small shares which takes from the poor and ignorant their little earnings; extinguishes in the common people the satisfaction which they commonly feel in their moderate incomes; kindles in their breasts a passionate

(*r*) During fourteen years, from 1773 to 1787, the gains of government from the Danish Lottos amounted to £820,423 sterling. But from 1787 to 1791 the public regained £403,672 sterling, and left only a balance of £416,751 sterling to the Crown for the space of eighteen years. The very uncertain produce of this destructive gambling impost was therefore only about £20,000 sterling annually upon the average of 18 years.

desire of gain ; diminishes their zeal for useful labour, which is slow in enriching its votaries ; and dazzles their imagination with the prospect of obtaining rapidly and without trouble those tempting prizes, the object of their most ardent wishes. Even independent of the immoralities into which the rage of gambling in Lotteries so frequently betrays feeble minds, whatever weakens or extinguishes the love of labour has the most pernicious influence on the wealth of nations, the increase of which depends solely on labour and capitals the produce of labour (s).

(s) It will not easily be credited by posterity that, in a calculating age, and in an enlightened country, the parent of the soundest principles of political economy, where the industry of the people is acknowledged to be one of the most abundant sources of public revenue, those who were placed at the helm of the state in the year 1810 should have persisted, notwithstanding the energetic admonitions of the wisest senators, in a system so fraught with moral mischiefs, and which has such a direct tendency to abate the industry of the people.

CHAP. XIII.

Of Taxes in Particular.

THE greatest benefit that can be conferred upon a nation is, to leave all lands and all trades to private individuals, who are sure to obtain from them the largest possible income, and to let each individual contribute no more of his income to the public expences than what the end of civil associations necessarily requires. This is best effected by regular imposts and taxes. The collection and management of the public revenue is the only business particularly fit for the state, and with which it ought never to part. It is not so much the sum raised or expended, as the mode of its levy and its application, which chiefly promotes or impedes the proper distribution and increase of the national wealth. Not that the sum itself is indifferent. Every expence incurred by the state is always more or less a loss to the individuals who contribute to defray it; and as wealth increases in proportion to the length of time that a capital is actively, or rather productively, employed, that system of finances is no doubt the best

which not only takes least from the subject, but leaves the money as long as possible in his hands, collects it only at the time when it is wanted, and quickly returns it to the pockets of the contributors.

Taxes ought never to dry up the sources from which the subjects derive their incomes; they ought to be levied on the annual income, and not on the stock or capital. Every exemption or immunity is contrary to the principles of justice and equity; the public burthens ought to be borne by every member of the community in proportion to his income, without any exception. Unnecessary severity and vexation ought to be avoided in the collection of the taxes, and they ought to be gathered at the smallest possible expence (t). The amount of every tax and the time and place of its payment ought to be so well ascertained, as to leave no room for contention about either between the contributor and the tax-gatherer, to afford no opportunity for the exactation of bribes, to allow the money to re-

(t) The collection of the taxes in France under the ancient regime cost about 10 per cent. ; in 1803, $16\frac{1}{2}$, and in 1808, according to an American traveller, 20 per cent. In England the collection of the taxes costs from $7\frac{1}{2}$ to 10 per cent. The Excise is even said to cost only $3\frac{3}{4}$ per cent. or 9d. in the pound.

main as little as possible in the hands of the collectors, and to render every attempt to evade the tax altogether next to impossible.

Among the nations of antiquity, and particularly among the Hebrews, contributions to the public expences were levied in kind. Even in the Roman republic and under some of the Roman emperors, some taxes were paid in kind. In 1340 the parliamentary grants to the King of England were only in kind: 30,000 sacks of wool were granted. The same took place in France under the kings of the first and second race, as appears from the Capitularies. The celebrated Marshal Vauban wanted to revive this mode of imposition under Lewis XIV., and the question was again agitated in France in 1787: but this inconvenient mode of taxation was adopted only for a short time, under the name of Requisitions, during the revolutionary phrenzy. Contributions in kind and in personal services are always more expensive and troublesome to the contributors and to the state than they are serviceable to the latter; they give rise on both sides to arbitrary, unjust, tyrannical and cruel proceedings. Farmers in France have not scrupled to mutilate their cattle and wilfully to deteriorate the race, in order to escape the intolerable requisitions of the re-

volutionary governments. Taxes in money are not liable to such inconveniences. They, too, deprive a nation of part of its income ; but provided the public means be expended in securing the liberty, safety, and tranquillity of the subject, a valuable consideration is obtained in return.

But reverting to the two most material circumstances in the levy of taxes in money, viz. their being laid on equally, and collected with the least inconvenience to the contributors, it must be confessed that to hit this equality exactly, or to tax every subject in the precise proportion of his net income, is impossible. ~~care~~ ought to be taken only that one class of citizens be not burthened preferably to another, that one class be not obliged to bear the tax almost alone, or that a few individuals be not deprived by the tax of nearly the whole profit of their labour or capital, whilst others are enjoying it unimpaired. Such glaring inequalities, by rendering the sufferers discontented, and weakening their inclination to acquire, impede the current of wealth, and stop it at its source. Had the nobles of France consented to the equalization of the land tax, a paltry deficit of less than two millions sterling would have been remedied, and Europe would have been spared

spared the scenes of horror and devastation which followed their pertinacious resistance to allay the well-grounded discontents of an unequally taxed rather than overburthened people. But those inequalities which are unavoidable in the fairest system of taxation, are of trifling inconvenience compared to the pernicious consequences of the following defects in its levy and collection. If the latter be entrusted to too great a number of officers, a considerable share of the tax remains in the hands of the collectors, the nation is burthened, as it were, with a double impost, and a herd of people that might perform productive labour, are maintained at the expence of the industrious. If any part of the tax be left to the arbitrary assessment of the collector, it opens the door to a system of bribery. If the contributors be obliged to carry their payments to a great distance from their homes, the nation is deprived of the commodities which would have been produced during the time lost in their journeys. If the tax be ever so slight an infraction upon the freedom of trade and commerce, it destroys that portion of national wealth which a free trade would have produced. And lastly, if the incitement to evade the tax be encouraged by the oppref-

five nature of the tax or the vexatious mode of collecting the same, it feeds the bad passions, engenders immorality, throws the whole burthen of the contribution upon the virtuous, and suffers the vicious to escape its load.

All taxes are paid by the nation, and as they ought to be levied upon its income only, they must necessarily flow from the three principal sources of national income, viz. land, labour, and capital. He who is unable to contribute to the expences of the state out of his rents, wages of labour, or profits of stock, is forced to break upon his capital in order to pay his taxes.

The economists or physiocrats maintain, that there is in every country a class of inhabitants into whose hands the whole income of the nation is primitively deposited, and out of whose hands all the other inhabitants must receive their respective incomes. They say,
" all wealth is originally derived from the
" soil, and consists in raw produce, or rather
" in provisions. It is with the provisions
" grown in the course of the year that the
" advances bestowed on the cultivation of
" the soil and the rent of the landlords are
" paid, and it is with that portion of the raw
" produce of the soil which the co-operators
" in

“ in its production do not consume with
“ their families, that all the remaining labour
“ performed in the course of the year, and
“ whatever is consumed or accumulated in
“ the country within the same period, is
“ purchased.” [B. II. CH. IV.] Were this
really the case, it would undoubtedly be most
convenient to tax none but land-owners, from
whom every commodity originally proceeds,
and who are obliged to disburse, in wages of
labour and profit of undertakers, what the
labourers and undertakers pay additionally for
the commodities on which the taxes are paid.
Had the labourers no taxes to pay, the land-
owners would keep as rent the additional
wages which they are obliged to give them on
account of the taxes. The impost laid on the
landholders would be considerably below the
whole produce of the taxes ; it would save the
enormous expence of collecting it from so
many hands : consequently all parties would
be materially benefitted. The state would
have no demand but upon its most wealthy
subjects ; its revenue would be more certain.
The land-owners would pay less than they did
before. The remainder of the inhabitants
would be delivered from the vexatious bur-
then of the taxes, and the nation at large
would save the time lost in their collection
and

and payment ; the hands which gathered the vexatious tributes would be turned to productive labour, and the removal of the obstructions arising from inquisitorial taxes in several trades would cause the people to advance more rapidly on the road to opulence.

To invent a more simple system of taxation is hardly possible. Unfortunately the main principle on which this beautiful superstructure is raised, viz. that the annual income of a nation is derived from its soil alone, cannot be admitted as grounded in truth. The real income of a nation does not consist merely in the provisions that are consumed, but in all the manufactured and other commodities produced during that consumption, or in other words, in the value of whatever each individual in the country consumes, which evidently consists in a certain quantity of manufactured and other commodities, in addition to his food. The whole annual surplus of raw produce is purchased with an inconsiderable part of the labour of the manufacturers, artists, merchants, and performers of personal services ; the remainder of the produce of their labours constitutes a high value absolutely independent of the produce of the soil. [B. II. CH. IV.] This value, which is always the larger, the richer the nation, and which

which in many countries exceeds not only all the rents, but also the whole value of the soil, (as was formerly the case in the republics of Venice and Geneva, and as is still partly the case in Holland (*u*), Hamburg, Lubeck, and Bremen,) would thus remain untaxed; and what appears at first sight a relief to the country, would introduce a most unequal and oppressive taxation, and far from encouraging, annihilate agriculture. The cultivators of the soil would, namely, not have it in their power to add the amount of the tax to the price of their produce; this price being regulated by competition, which, according to the physiocratic system, ought to be left open. Foreigners, not paying the exclusive land-tax,

(*u*) Even so late as 1803, Metelenkamp estimated the whole property of Holland, bearing interest, at 2734 millions of Dutch florins, out of which the lands and turberies, yielding a raw produce, amounted only to 764 millions, buildings bearing rent to 250 millions, the capital of farmers to 120 millions, the national debt to 600 millions, foreign debts to 650 millions, commerce, fisheries, manufactures, and handicrafts, to 350 millions. In agricultural countries, where the proportion of the national income derived from any other source than the soil is very small, as in Prussia, before the peace of Tilsit, when one was 248 millions and a half, and the other only 12 millions and a half, the land-tax might perhaps bear the same proportion; in Prussia, for instance, it might have been $\frac{49}{522}$ of all the taxes of the country taken together.

would be able to undersell the native husbandmen, whose ruin would deprive the state of its only revenue. The supposition that the prices of corn would sink, is built upon the erroneous idea that the land-owners actually pay at present more and higher taxes (x).

But whether the physiocratic system be practicable in some countries or not, it appears almost impossible to establish, in all cases, a clear and precise difference between primitive and derivative income, and it is this immense difficulty of ascertaining the nature of the income of each individual contributor to the public expences, which leads financiers to grope along in the dark, and to make a demand wherever they suppose something is to be had. Possession, acquisition, consumption, are regarded as land-marks of income, and taxes are levied accordingly, sometimes directly, and sometimes by a circuitous road, or indirectly. Possession is taxed on the presumption that it is the surest road to meet the income: but if it be not a source of income, if the possessor acquires nothing with his property, the capital is gradually diminished, and

(x) See *The Science of Legislation from the Italian of Gaëtano Filangieri by Sir R. Clayton.* London 1806. p. 203.

the origin of farther wealth prevented, which circumstance ought to be most particularly avoided in every kind of taxation. All direct taxes on property, or on the mere transiſion of property, from one hand to the other, are taxes on poſſeſſion. Were it poſſible to ascer- tain with accuracy the property of every individual, and did not property fluctuate ſo much, or did every one employ his property in profitable undertakings, a property tax would be a very eligible tax. As it is the proper medium of acquisition, every one that is taxed according to his property would, in fact, be taxed according to his income. Small properties, however, ſhould be ſpared, or very ſlightly touched, and a geometrical rather than an arithmetical progreſſion obſerved in ascending to the moſt wealthy inhabitants. But when the property tax takes not merely a part of the income uſually derived from it, but a portion of the capital itſelf, it prepares the ruin of the country. It is on this account that a property tax ought at all events to be low. One individual may gain much more with a ſmall property than another with a large one. It would therefore introduce the moſt oppreſſive inequality, if it were high, or the only tax.

The

The mere act of transferring property to another person by sale, barter, donation, &c. does not increase the existing property of the country, nor does it suppose any previous increase. To levy a tax on such transfers, is taking from the capitals themselves, and lessening the sources of income. He who pays the tax, may possibly replace it out of some other income, or make the deficiency up by additional industry. But the state ought not to trust to the fatal consequences of any public measure being obviated by private prudence. It is the act of a very ignorant and unthinking financier to demand a tax merely because he obtains sight of a capital, without heeding the injurious effects which its operation is liable to produce in general. Of this impolitic and improvident nature are all taxes raised as a per centage on the transfer of immoveables, changes of feudal tenure, inheritances and property leaving the country, levied sometimes directly, as the legacy tax, droit d'aubaine, &c. and sometimes indirectly by stamp duties, register dues, &c. They are all taken from capital, and strike at the root of wealth, for though some individuals may be gainers, the nation acquires nothing by such transfers. The deductions

ductions made from emigrating capital, known formerly in most countries by the name of *Droits d'Aubaine*, keep, it is true, part of the capital in the country: but they obstruct the entrance of foreign capitals; and as the efforts to bring capitals to a prosperous country, greatly exceed the inclination to remove them, such a tax does more harm than good.

An annual income is gained by means of land, capital, and labour, either common, or skilled, or performed under the name of personal services. Taxes on acquisition are therefore either land taxes, taxes on the revenue of capitals, or taxes on industry.

As far as the soil yields a rent, it may bear a tax. This does not impair the means by which the rent is annually reproduced. Were the tax however to swallow the whole rent, or its greatest part, land would grow less valuable to the owner, and soon cease affording a net produce or income, which circumstance would render the tax unproductive, and diminish the national wealth. But if the land taxes be so moderate, as neither to prevent nor to impede the cultivation and improvement of the soil, be their shape or form what it may, they are not prejudicial to the progressive increase of the wealth of the nation.

Every one then uses his soil just as he should do were there no tax. The effect of such taxes is never injurious, as long as they take only a small part of the net produce. But when they are regulated by the gross produce, and increased with it, they unavoidably prevent the improvement of the soil, because they affect the capital that is identified with the soil. They then degenerate into a direct tax on capital. It is on this account, chiefly, that tythes on raw produce ought, by all means, to be commuted into fixed regular imposts, calculated upon an average of several years. If there be a trifling inequality in the land tax of different provinces, it can have no injurious effect on the cultivation of the soil ; it only may influence the price of land in purchases. But exemptions granted to certain lands are always highly disadvantageous to the whole country, because, either the other lands are so much the more burthened, or, in order to avoid this inequality, a much more inconvenient tax is imposed in another shape upon the land owners exempted from the land tax.

Capitalists drawing interest from their money, enjoy a net income, and might undoubtedly contribute to the exigencies of the state : but many circumstances render a tax on

on interest rather difficult. It is namely impossible to know precisely what capitals individuals are possessed of. Severe researches are tyrannical, and seldom attain their end. They drive foreign capitals from the country, impair credit, and consequently tend to diminish production. It is on this account, in particular, that the British legislature, enlightened by the wise counsels of the immortal Fox, resisted the attempt of ignorance and prejudice to tax the interest paid to foreigners out of the national debt (y). But the deductions made from the dividends of the national creditor, may have the salutary effect of turning more capital to productive employments, the exact returns of which can never be ascertained.

Industry comprises every kind of labour, or useful occupation, by which money, the representative of value in general, is acquired. It therefore includes, not only the labouring classes, menial servants, and performers of other personal services, but also those who

(y) The interest on public stocks, held by foreigners in England, is annually about £630,000 sterling, to which may be added £70,000 sterling, for Bank and India stock. The exact amount of the exemption on the income tax, was in the year ending October 1807, £67,772 12s. 7½d.; in 1808, £64,493 14s. 5½d. and in 1809, £59,298 5s. 7d.

apply either borrowed capitals or their own to productive employments, such as farmers, manufacturers, artists, handicraftsmen, merchants, dealers, &c. The profits of farmers may be nearly ascertained by the rents they pay to their landlords, and the goodness of the soil they cultivate. These are data towards a tolerable estimate of their income, and may form the basis of an agricultural industry tax, which, if levied moderately upon the probable profits of the farmers, and not upon the implements of husbandry, cannot clog agricultural industry. The farmers actually pay such a tax in Great Britain, in the shape of a general income tax. But in some provinces of Denmark, as Sleswick and Holstein, each plough pays twenty-eight dollars or about £5. 12s. sterling, annually. The profits of manufacturers, artists, and handicraftsmen, may also, in some degree, be guessed at by the number of hands which they employ: but mercantile profits are not easily ascertained, though custom and excise registers may give some distant idea of the business transacted by the merchant. But instead of vexatious and tyrannical inquiries into the private concerns of every industrious individual, it is far better, in free and well governed countries, to trust to the patriotism and

and probity of the subject, and not to dispute the amount of his income as stated by himself on his oath, unless there be a strong presumption that it has been rated far below its real amount. This is infinitely preferable to the *droit des patentés*, paid under the present government of France (1810) for the privilege of exercising trades and professions, and upon the emolument and transfer of public offices. It is at once a capitation tax, and a tax on the wages of industry, most unequal and oppressive in its operation, since it takes no notice of the effective returns of any business. The merchant, whose clear gains amount to £5000 a year, pays no more than he whose profits do not exceed the tenth or twentieth part of that sum. As far as a general income tax is also, in some degree, a tax on the wages of industry, it ought to be guided nearly by the same rules, and avoid, above all, to obstruct the industry of the labouring classes. Small incomes, hardly sufficient to provide for the common necessaries, should not be touched at all, and a very trifling contribution only ought to be taken from those who earn little above the supply of their most necessary wants. It ought also to be collected in small portions, and at regular times.

Taxes on consumption oblige the consumer to contribute to the exigencies of the state some part of the surplus which he destined for his consumption. They ought to be levied on superfluities only. But in modern civilized societies, every rank incurs unavoidable expences to preserve its weight in the scale of subordination. Whatever is necessary to keep up this political importance in the gradations of civil society, cannot be touched by the state without stifling the national energy. The superfluities of one constituting the necessaries of the other, the safest way appears to be to levy a tax on consumption, even on the absolute necessaries of every class; but in so slight a proportion that every individual member of the community may retrench from his superfluities what he is forced to pay additionally for his necessaries on account of the tax. According to this principle, and under the supposition that the wages of common labour have not reached their minimum, but that even the very lowest labourer earns more than is absolutely necessary for his support and that of his family, and that he need not retrench from his food, a trifling tax may be levied on what constitutes the absolute necessary of the

the lower orders. Their superfluities may be taxed somewhat heavier, yet in so slight a manner, that they may still be enabled to come at those superfluities by a little greater exertion of industry. The middle classes, by indulging more freely in what the lower ranks consider as superfluities, would of course bear a larger proportion of those two taxes, and have an additional and heavier one to pay on their superfluities. And the higher ranks, having alike to bear the taxes of all the subordinate classes, would have a considerable additional contribution to pay to the exigencies of the state, for whatever may be considered as a superfluity among them. This gradation of taxes is at the same time the most productive and the most equitable, every one being obliged to consume a certain quantity of the necessaries of life, and enabled at his own option to indulge in some of the superfluities of his own rank, or of those above him.

That a tax on consumption, levied upon the most common necessaries of life, tends to raise the wages of labour, and is in fact paid by those who pay the labourers, may be true, when the wages of labour are near their minimum. But in countries where a day labourer may supply many superfluous

wants with his earnings, the labouring class is not diminished because it bears a trifling tax on consumption. A small duty on bread, for instance, does not diminish the labourer's consumption of bread. He eats the same quantity, but he drinks less spirituous liquors. There may be strong reasons for laying the duty on bread, preferably to any object of luxury, and if the earnings of no individual in the country be so small as to force him to live upon bread only, no person is injured by the tax. Besides, it may frequently be expedient to levy a tax on the labourer rather than on the consumer who pays him, provided the labourer has it in his power to raise his wages on account of the tax. A tax on luxuries, for instance, which to be productive must always be very high, might hold out too powerful an encouragement for smuggling, or oppress an extensive home manufacture, by which last circumstance labourers would lose more of their wages, and undertakers of their profit, than the tax takes either directly from the former, or in a circuitous way from the latter. Whatever may be the tax on consumption, the whole of the tax never rests on the article taxed, but is drawn from a large circle so as to produce an equalization. Labourers in particular will always endeavour

to shift off part of the burthen upon their employers, and the latter upon their customers. But if the tax be moderate, and if neither the profits of the undertaker nor the wages of labour have reached their minimum, the prices of commodities and of labour are not affected by the tax, which, in that case, falls rather upon the labourers and undertakers. The rise and sinking of prices depends solely on the competition of the demand and offers for sale.

The immediate object of taxes is to raise money to defray the expences of the state. Other views, however, are sometimes connected with their levy. To direct commerce into the channels that are considered most profitable ; to favour the importation of certain commodities, and to exclude others ; to invigorate the inland industry ; to keep the prices of provisions down ; to impede the progress of luxury ; to repress vice ; to encourage virtue ; to accelerate the improvement of civil society ; to increase the population of the country, or to pry into the secrets of private correspondence (z), and to prevent

(z) One of the most remarkable instances in which financial and political objects are combined, is the system of the post-office in France, where, even under the government



prevent the dissemination of knowledge among the lower orders, &c. are so many necessary objects which statesmen have not scrupled to combine with their plans of finance. But the interference of the state with trade and commerce, is generally useless, and frequently hurtful. The employment of capital in productive industry may safely be trusted to the unerring operation of individual interest. An unrestrained freedom of trade and commerce is an infallible way to increase the wealth of a nation. The most beneficial necessary end which the state may have in view, is sure to be more than over-balanced by the evident disadvantage of fettering industry [B. II. CH. IX.] ; and at all events, the attempt to direct the trade of the country ought to be totally unconnected

ment of the Bourbons, there were certain *bureaux de secret*, or secret offices for inspecting all communications through that channel. The Count de Broglie, in a letter to Louis XVI., in the *Politique de tous les Cabinets de l'Europe*, says, “ On “ a de très ancienne date établi à l'Hotel des Postes un “ Bureau de Secret. M. d'Ogny en est aujourd’hui le “ chef, et a une douzaine de commis sous lui pour ouvrir “ toutes les lettres, ou du moins celles qu'on suspecte, et “ en tirer promptement des copies ou des extraits.” See *Letter on the Genius and Dispositions of the French Government, by an American*, Philadelphia, 1809 ; reprinted, London, 1810.

with

with the contributions necessary for the exigencies of the state. The progress of luxury needs not to be particularly impeded ; taxes on consumption, regulated by the principles stated above, operate as sumptuary laws ; and high taxes upon objects of luxury, render the access to such objects sufficiently difficult to the poorer classes. Should such luxuries grow more common, it would be a symptom of increased wealth no ways injurious to the nation : but were it even the consequence of a prodigal thoughtless disposition in the people, no sumptuary law would be adequate to restrain such an unhappy disposition ; the evil in that case cures itself, when the means of satisfying inordinate desires are spent. Fortunately such a disposition in the majority of a nation has no existence but in the shallow brains of ignorant financiers. The mad inclination to dissipate large fortunes in wanton superfluities may seize a few individuals. It never will turn the heads of a whole nation as long as a door is left open for the industrious to acquire riches by their exertions, and as long as the laws do not attempt to disturb the natural progress of things. What should we think of our legislators, if a heavy tax were laid upon driving four-in-hand, because a few giddy young men may

may have been ruined by joining the four-in-hand club? To levy high taxes upon pernicious and immoral trades, is to sanction those trades. If they be real evils, government, as it is established for the good of the community, exceeds its powers by allowing their existence. Far from tending to the suppression of vice, the tax shields it against punishment, and the magistrate, or the legislature, that licenses gambling-houses and sinks of prostitution, partakes of the infamy of such concerns. The state ought never to countenance what it should be the constant effort of a good government to root out. Infamous traffics ought to be prohibited, instead of being tolerated for the sake of participating in their scandalous gains. To encourage population by a tax on celibacy, is as silly as mischievous. Matrimony, among an industrious and thriving people, wants no political stimulus; and among a poor one, it only increases the general misery. In short no system of taxation ought to admit of any other object than that of levying and collecting the public revenue, in a way the least expensive and least inconvenient to the contributors, and the most conducive to the progressive increase of national wealth.

BOOK III.

OF THE DISTRIBUTION OF THE WEALTH OF NATIONS.

CHAPTER I.

Of the primitive Distribution of the National Income.

THE aggregate of the commodities grown or manufactured in a country constitutes its income. As most productions or commodities are the produce of the united exertions of individuals, each of the co-producers is entitled to a share of the value of the production. It is for the sake of that share that he concurs in producing the commodity. This distribution of the produce among the co-operators in the production constitutes the primitive distribution of the national income. When the producers have all received their proportionate share, they either consume their respective portions themselves, apply them to reward personal services, give them away, or exchange them for other useful productions. This is the derivative or secondary distribution. It is effected by what is called circulation.

If

If land-owners, manufacturers, merchants, and labourers lived all upon their own stocks ; if none advanced any thing to the other, the produce of the soil would be distributed among the co-operators in its production ; the value of the manufactured commodities, deducting the raw material, would be distributed among the manufacturers of the commodities ; and the value which trade superadds to commodities, among the persons engaged in trade. That this distribution is effected in part by advances and other commodities than those produced, does not alter its nature. The agricultural labourer could never receive his wages in money, if money were not obtained for the corn he helps to grow. Manufacturing labourers, waggoners, mariners, persons engaged in trade, &c., draw their wages from the value which they help to produce by their labour. No commodities can circulate but those which get into the hands of the individual members of the community through this primitive distribution. Circulation is the barter of extant commodities. Its magnitude and its progress are regulated by the primitive distribution of the national income.

The aggregate of the useful things or commodities which a nation obtains in the course of

of a year constitutes its annual income. Whatever the nation possesses from former times, and whatever is received by some individuals from others out of the productions which the latter have earned in the course of the year, or derived from pre-extant stocks, does not belong to the national income of the year. Neither must the private income of individuals be confounded with the component parts of the national income. Many people derive their income from previously accumulated capitals, or from the produce of others; and as by every exchange or barter the same commodities may frequently be turned over backwards and forwards, the amount of the several private incomes is much larger than the total amount of the national income. The primitive annual national income consists merely in the annual productions of the country, or in whatever industry, lands, and capitals produce valuable in the course of a year; viz. the raw produce obtained by agriculture, fisheries, the chase, and mining (a); the value which manufactures and art superadd to this or any other raw produce, and

(a) The economists or physiocrats consider the raw produce as the only primitive income, and the value superadded to it by manufactures and commerce as a derivative income.

the additional value which the business of the merchants, dealers, &c. impart to commodities. The aggregate of all these values constitutes the total amount of the primitive national income. The varied application of its component parts does not strip them of the nature of a primitive income; whether some of them be consumed, others employed to re-place a capital advanced for the purpose of consumption, and others converted into fresh capitals, it still remains the primitive income of the nation. Nor does it suffer from the circumstance that the individual members of the community exchange their different incomes with each other, or that it does not all consist in the direct supply of necessary wants. Any object of value may enter into the composition of the primitive income of a nation.

That this income is mostly produced by advances or capitals previously accumulated, is true. But there is no occasion to deduct the advances from the productions obtained by their assistance to come at the primitive income of a nation. The whole produce still remains income, whether its value has been consumed before hand or not; if it has been so consumed, the produce serves to replace its value; nor matters it whether it be

be consumed directly at the time of its production, or whether it be kept and stored for some future period. These circumstances have only a different influence on the wealth of the nation with regard to its increase or its diminution.

An individual who acts as a receiver or agent for others calls the totality of his receipts, his gross income, and distributes the shares belonging to his respective employers, either by advances or when the object in view is attained. Whatever belongs to him exclusively out of the monies received constitutes his private income. The same distinction takes place between the total and net income of a nation. The latter is the surplus which it has left after deducting the expences necessary to obtain the produce. But the productive advances still belong to the total primitive income. He only has a primitive income who produces the real value of it himself: but the income of non-producers, though derivative, may yet be a net income.

CHAP. II.

Of the Sharers in the first Distribution of the National Income.

THOSE who jointly produce a commodity have the first and most natural claim upon it. Hence it is among those who produced a commodity, that it is first shared or distributed. The produce of the soil is the joint produce of land-owners, farmers, capitalists, and labourers in husbandry. It is divided among these four co-partners in its production. If there be any part, in the production of which any one of them did not co-operate, he gets nothing; the whole is shared among those only who have produced the commodity. The farmer, who generally acts as receiver or agent, takes possession of the whole produce, and out of his total or gross income, gives to the labourers their wages, unless they have already been advanced to them; to the capitalist, his capital and interest; to the landlord his rent; and to himself the surplus above those three portions, as a profit for his undertaking. All these shares form a primitive national income. The wages

wages of labour are a net income to the husbandman; what the capitalist receives is in part a mere restitution, the interest alone constitutes his net income; the rent is the net income of the land-owner; and the profit of the undertaking is the net income of the farmer.

Manufactured commodities are produced by the growers of the raw material, the undertakers of the manufacture, the advances of the capitalist, and the workmen in the manufacture. The value of the raw material is not the produce of the manufacture, consequently it does not belong to the sharers in the production of the manufactured commodity. But the value which the manufacture superadds to the raw material is the manufactured produce, and constitutes the reward of all the co-partners employed in its production. One part is the share of the workmen, as wages of labour; the other that of the capitalist, as interest for his advances, which are repaid to him at the same time; and the third that of the undertaker of the manufacture, as his profit.

The income from trade is effected by the original producers of the commodities sold to the consumers, and by all the individuals concerned in trade, as capitalists, merchants, mariners, waggoners, labourers, &c. The

commodities themselves, or their value, are not produced by trade; the individuals engaged in trade can have no share in them. But the additional value which the merchants' business imparts to the commodities, constitutes the reward, and the net income of those who are concerned in the production of this additional value. He who receives the total value of the commodities of the consumers must repay to the original producers of the commodities their value, which component part of national income has already been accounted for, and does not belong to the net income of the individuals engaged in trade; he must further pay to the labourers, mariners, waggoners, &c. their wages, to the owners of the capitals employed in trade, their capitals with interest, and to himself, as undertaker, a profit.

As soon as this first distribution is effected, and different commodities are thus consigned to different hands, circulation commences. Those who have received a value which does not consist in provisions or food, go to those who have got provisions, and purchase, with the value they have to offer, the quantity of food they require; and those who have provisions exchange them with pleasure for other productions necessary to supply their manifold wants. Thus mutual exchanges take place

place among the possessors of different commodities. But as they are also in want of personal services, they willingly cede some of their commodities to those who are able to render them such services. In this manner this class of the community is likewise provided with an income, which is only derivative, because the services which they tender in exchange are not external tangible goods, and are, on that account, not considered as integral parts of a material income. They are, however, of incalculable advantage, and have an exchangeable value, which entitles the income derived from them to be called by analogy a primitive immaterial income. The state is also in want of personal services, and if the performers of such services contribute to the exigencies of the state by tending them, or their value in money, in the shape of a tax, they do exactly what the husbandman does, who gives the state part of his wheat, or its value in money. But, besides providing for the performers of personal services, the primitive income of a nation must also maintain all the members of the community who do not contribute to the production of that income, and from whom the community derives no benefit whatever.

CHAP. III.

Of the Proportion in which the first Distribution takes place.

AS the annual produce may be measured either by its quantity or quality, the individual producers receive annually a greater quantity or a higher value for their share, the larger the quantity or the better the quality of the commodities they have produced in the course of the year. If the commodities be perfectly homogeneous, the proportion of quantity is at the same time the proportion of value. The proportion in which the whole produce is distributed among the co-operators in the production depends on the same circumstances which regulate the price of that which every co-partner contributes to the production of the commodity. The co-authors of a production are continually at variance about the shares they expect of the commodity produced; their final agreement is the work of necessity; one finds he cannot do without the other. The land-owner would like to have all the produce of the soil to himself, but he cannot grow it by himself. He wants the

assistance of labourers; he must therefore let them have a portion of the produce of his soil. The labourers would prefer taking the whole produce of their labour to themselves, but they can effect no produce whatever without the aid of the land-owner, capitalist, and undertaker. Consequently they must be contented with part only of the produce; they are forced to acknowledge land and capital as co-operating causes. The same contention happens about every commodity produced, and the shares are ultimately adjusted by the demand for the several classes of producers, or for their contributions to the production, according to the principles which regulate prices in general. [B. I. CH. X.] The minimum of the share of the labourers is the minimum of their wages. No labour can be performed if this minimum be not obtained. But the labourers are constantly striving to have a larger share allowed than what is adequate to their necessary support, and the success of their efforts depends chiefly on the demand for labour exceeding the offer. The undertakers are also labourers in fact; their labour consists principally in directing that of others, in arranging the proper system to be pursued in the performance of the labour necessary to produce a commodity. They com-

monly act as receivers general; the total or gross income goes through their hands, and they endeavour to appropriate as much of it to themselves as they possibly can. They are the principal purchasers of labour; the individuals who wish to be employed as labourers must generally submit to their decision; it is between the undertakers and the labourers that the share of the latter is generally settled. But though the former stand in as great a need of the labourers as these need the undertakers, yet the undertakers have commonly the best of the bargain. They need the assistance of the labourers merely for the sake of lucre, whilst the labourers need the aid of the undertakers for their support, for their existence. The undertaker has a capital on which he may live for some time; the labourer wants an immediate income to still the cravings of hunger. The undertaker can do without the labourer longer than the labourer can do without the undertaker. Hence the latter has it always more in his power to induce the labourer to accept of a small share of the produce, which of course increases his own share, than it is in the power of the labourer to oblige the undertaker to grant him a larger proportion. The undertakers are possessed of a sort of monopoly. Their numbers are inconsider-

able. They may easily enter into combinations not to allow more than a certain quantum of the produce. The combinations of labourers are much more difficult, and in some countries they are prohibited and punished as conspiracies. When the labourers groan under political oppressions; when they are slaves, villains, bondsmen, their masters have it still more in their power to abridge their share of the produce: but their labour in that case is seldom so effective, and generally dearer in fact than that of free men, on account of their reluctance to labour, and their wilful neglect. In 1784 the cost price for sugar in some of the English West India islands was 25s. sterling per cwt. when sugar equally good was raised in the East Indies by free people for 3s. 4d. sterling per cwt. The situation of labourers has however been considerably benefitted by the increased opulence of the modern nations of Europe, and by their manner of employing their wealth. Every rich individual is anxious to have productions of labour, and particularly manufactured commodities; his income naturally flows into the hands of the undertakers, and through these to the labourers. This circumstance augments the class of undertakers, the demand for labour increases in the same proportion, labourers

bourers obtain a greater share of the produce which they help to raise; they are not tied to a few undertakers; they go from one employer to the other, and as the several component parts of a production are often produced singly in different and distinct places, they grow more independent of both the undertakers and the consumers of their productions.

The undertaker, as principal co-efficient cause of a commodity, naturally claims the best share; consequently it is far above the common wages of labour, and various circumstances render it necessary that it should be so. Undertakers employ more or less capital, which, if not their own, they must obtain by their credit; they want more or less talents, sagacity, skill, and accomplishments, the acquisition of which is expensive; and there is in every enterprize a certain degree of risk, for which compensation is justly due. From their principal productions most undertakers are denominated farmers, merchants, or manufacturers. The proportion of their respective shares is regulated according to the general principles of price. [B. I. CH. X.] There are two ways in which one undertaker may secure a larger income than another who employs the same capital and the same number of

of hands ; the first way is by giving less to the co-operators in the production than the undertaker, who has a total income equal to his ; the other by raising with equal powers a larger produce, in which case the proportionate shares of all the co-producers may also be enlarged. The latter circumstance increases alike the wealth of the nation and that of all the co-partners in the production. The former increases the wealth of the undertakers only, at the expence of his co-adjutors. The regular profits of undertakings depend on causes inherent in their nature. Their variations are occasioned chiefly by artificial regulations. The gains of undertakers are raised by monopolies, privileges, corporations, and companies, or limitations of any kind which obstruct the access to certain enterprizes ; they are lowered by immunities, marks of honour, or whatever encourages the undertakings, and by any regulation that prevents the individuals engaged in a business from quitting it at pleasure.

Two classes of people, the land-owner and capitalist, derive an income from the production of commodities, merely because they afford the means of effecting that production, though they contribute nothing towards it by their personal powers ; they let their property,

perty, or the produce of previous labour, work for them. The landlord receives a share of the produce obtained from the soil, because he lent that soil for the purposes of cultivation. His share is called Rent, and is generally in proportion to the goodness of and the demand for the soil. If his land yields a valuable produce spontaneously, the land-owner takes it all to himself as rent: but if labour be necessary to obtain it, he can only receive as rent that portion of the produce which the labourers leave above their share; and if he be obliged to call in the aid of a capitalist for the required advances, the profits of stock must also first be deducted. When these profits and the wages of labour swallow the whole produce, he has nothing left as rent, and the land is no longer cultivated, unless he himself should act as undertaker. Under the steady operation of wise laws, and through a progressive population, a certain settled value is gradually allowed for the share of the labourers, capitalists, and undertakers, with which they are generally satisfied. If any land-owner be possessed of a parcel of land, the probable produce of which exceeds those shares, he readily obtains the surplus as rent. The natural or acquired fertility of land may therefore be considered

considered as the main standard measure of rents.

Capitals are entitled to a share in the primitive income only as far as their application actually produces something above their value. If they produce merely that value, the capitalist can receive no more from the produce than what he has advanced, as these advances, though they afford a net income to the labourers, have gained nothing for himself; and if there be any surplus allotted to him, in that case it is at the expence of some one who is deprived of his share, or whose share is curtailed. Capitals being an essential condition of production, undertakers, labourers, and land-owners are obliged to allow the capitalists a share of the produce, as a remuneration for the loan of their productive engine. Their share however is chiefly regulated by the competition of the demand for capitals, which is limited by the gains made with them. The owner of a capital derives no greater benefit from it, whether it be employed in a more or less lucrative operation. He gets nothing but the market rate of interest for his money. The surplus above the expected profits of the undertaking accrues chiefly to the undertaker; if this profit continues steady and regular, part of it in time goes over to the landlord, in the shape of an increased

increased rent. Labourers are little benefitted by an increased produce, unless it increases the demand for labour: but capitalists are always in danger of being sufferers by an increased produce, because it increases the number of capitals, which tends to lower the rate of interest. When the capitalist gets a larger share than the usual rate of interest, he obtains it either because he is a joint undertaker and participates in the risk of the undertaking, or because part of the capital is repaid along with the interest. But neither the repayment nor the interest of capitals that are not employed in productive labour can be regarded as a primitive income; they must be replaced from a pre-existing or previously accumulated capital; they are consumed without re-producing anything.

Personal services are of various kinds. That some of them co-operate indirectly in the production of commodities cannot be denied. The scholar and the man of science impart their knowledge to artists and undertakers, and enable them to produce more or better commodities. The physician, by restoring the labourer to health, enables him to resume sooner his productive employment. The divine, by inculcating the principles of religion and morality, reclaims from vicious dif-

dissipation, or stimulates to honest pursuits, numbers whose active industry adds to the prosperity of the nation. The statesman, the magistrate, the soldier, the judge, every public functionary, maintain that order and regularity in the state which are the essential conditions on which the progress of industry depends. [B.I. CH. II.] The mental servant, not engaged in labour, which would place him at once in the class of productive labourers, by saving the time of those who devote it to productive employment, enables them to obtain a larger produce. And the theatrical performer, or he who affords any innocent recreation to the labouring classes of the community, contributes more to an increased production than the unfeeling task-master, who watches over the reluctant labour of slaves and bondsmen. The share which the individuals performing personal services receive of the primitive income of the nation may therefore be considered as justly due to them in their quality of indirect co-producers. Indeed the knowledge disseminated in a country by the learned, may be regarded as a component part of its wealth, the value of which is paid to those who produce it. Such mental treasures, not only afford the best enjoyment to their possessors, but often

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assume the nature of real commodities, by being rendered permanently inherent in material things, and becoming actually component parts of external or tangible wealth. The author of a good saleable book is as much a productive labourer, since he increases the wealth of the nation by the exchangeable value of his work, as the manufacturer of the paper on which it is printed. And the combination of sweet sounds, which is reputed unproductive when it simply charms our ears, becomes a vendible commodity the instant the notes are engraved on paper. But the information and the delight communicated by the author and the musician in the shape of a personal service, when they cause a certain vibration in the air, one by the utterance of his thoughts with the organs of speech, and the other by the performance of his music on a particular instrument, have even the additional advantage, that they both afford an immediate enjoyment, and instantly pass over to their hearers without the latter having the trouble of reading the book or playing the music: and yet it is this very advantage which constitutes their unproductiveness. The reason, however, is evidently because the book and the notes may be transferred, exchanged, and sold,

fold, but the gratification derived from the oral delivery of the author, and from the musical performance of the musician, cannot be handed over to others by the individual who heard them, though in both cases the mental wealth of the hearers may be permanently increased. A person of a retentive memory easily remembers the leading thoughts of a speech from having heard it only once, and a good ear may catch the combination of a few pleasing sounds, so as to recollect some parts of the music occasionally ; yet neither is sufficient to transmit the whole information, or all the notes that the book and the piece of music contain.

But waving this view of the matter, it is however certain, that learning and science have a powerful influence on the production of material commodities, and that many personal services afford the highest enjoyment, and satisfy wants of the utmost moral importance. At the same time it is perfectly true, that the share which knowledge has in the producing of commodities, is not so direct as the share of those who make the production of material commodities their business. The influence of science is a general one ; its share in the production of any particular commodity cannot be ascertained. The discoveries

coveries of the learned belong to a general stock ; every one uses them as he pleases, and on that account they have a very trifling exchangeable value ; the individual, on the contrary, who keeps his knowledge to himself, and manufactures a favourite commodity upon a secret principle, frequently obtains a very high compensation for his discovery. That the performers of personal services consume the wealth of others, is equally true : they must be maintained from the produce of others, and if material commodities alone constitute wealth, the class that performs personal services must undoubtedly be ranked among the mere consumers, and can never exceed the surplus of material goods, whose increase is obstructed by too great a number of unproductive consumers. It is also obvious, that the more the growers or producers of commodities are obliged to give to the performers of personal services, the less can they keep for themselves. Whether this employment of wealth be desirable or not, rests therefore on the advantages which those services procure to the community at large. Useful or agreeable services make some return for what they cost. But there is a number of sharers in the national income, that neither replace what they receive by any other kind of

of wealth or gratification, nor render the community any services. They are idle drones, that uselessly devour a considerable part of the produce derived from the primitive sources of national income.

CHAP. IV.

Of the most advantageous primitive Distribution.

THE object of wealth is happiness, which has its main foundation in the supply of human wants. The commodities produced by the productive classes insure that supply, and the best distribution is that which is calculated to satisfy the wants of every individual member of the nation, to diffuse universal contentment, and to increase the national welfare. In every nation the labouring class is by far the largest. The smallest share which they must receive of the whole national income, is the supply of the absolute necessaries of life. But as their inclination to labour, and their comforts are generally in proportion to the magnitude of their reward, it has the most beneficial influence on the community at large, if their share exceeds that scanty supply of necessaries, and enables them to enjoy a great many conveniences, and even to accumulate a small capital. This insures the happiness of the most considerable part of the population, occasions an extensive circu-

circulation of commodities, and causes their surplus to be employed in the production of a fresh increase of wealth.

The undertakers belong to the labouring class. Nothing is more reasonable, nor more beneficial to the community at large, than that their profits should increase in proportion to their increased production. But if the larger share of the undertaker proceeds from his abridging the share of his labourers, the primitive income of the nation is not distributed according to the rules of justice. Labourers and undertakers live both upon the produce of their labour. But the former cannot increase their income by extending their business, whilst the latter may combine two or more undertakings, and thus augment their share in the national income. It is, however, more beneficial for the nation, when the profits of several undertakings are divided among several undertakers.

Land-owners and capitalists receive their share, in proportion to the extent of the land, and capital lent to the undertaker. When that share devolves to a few, and their property is so considerable, that its net produce enables them to live without performing any labour, the most powerful incitement to

industry is blunted, and if they consume the whole of their income, the nation at large is not much benefitted. When net incomes, proceeding from property in land or money, are shared by many, happiness is more extensively diffused ; a greater part of the surplus of rents and interest is applied to fresh productive labour ; and the stimulus to profitable industry retains its force.

The performers of personal services receive their due share, if the productive classes allow them as much as their services are worth ; and as the demand for their services is in proportion to the opulence of the productive classes, they are most powerfully interested in the increase of the wealth of the nation. But when superfluous services are obtruded upon the country, and rewarded without any regard to their inutility, as is the case with sinecures and offices discharged by deputies, the distribution of the national income is imperfect and improper. The shares, which the pretended performers of superfluous personal services receive, are forcibly taken from the nation to its evident prejudice ; and the producing powers of individuals, pampered for doing nothing, are lost to the country. There is not one instance in a hundred

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that such men have been of any benefit by any discovery in science, or the suggestion of any national improvement. The leisure which is afforded them is hardly ever turned to good use. They are idle consumers in the utmost latitude of the term.

When the wealth of a nation is rapidly increasing, the class of common labourers fares best. The demand for labour increases, their wages are raised of course, and a great part of the additional opulence of the country flows into their hands. The increase of national wealth is equally favourable to land-owners. A growing population augments the demand for the produce of the fields and all kinds of raw materials, which enables them to raise their rents. But the increase of national wealth is not quite so advantageous to undertakers. They get more rivals, and must call in the aid of more talents and industry. Their profits grow less because larger capitals are seeking for undertakings. The influx of capitals lowers the rate of interest. To live idle, when the wealth of a nation is rapidly increasing, capitalists must be very rich. They fare worse, because they obtain a smaller share of gain. Many must resolve to embark in productive concerns, who before might have lived on the interest of

their money. But to no class of men is the increase of national wealth more highly propitious, than to the performers of personal services. A great part of this wealth finds its way to them almost unsolicited.

CHAP. V.

Of the genuine National Income.

NOTHING belongs to the annual primitive income of a nation but what has actually been produced in the course of the year. Capitals spent in the production of commodities are not to be taken into the account of that income; they have been produced before. No commodity taken from the produce obtained in the course of the year belongs to that income, else the same produce would figure twice in the account. But every valuable commodity, or every value produced within the year, forms a component part of the national income of the year. To find the value of these component parts in specific numbers is every where attended with immense difficulties, and to state their amount with any degree of accuracy appears to be practically impossible. It may however be approximated (*b*), and criterions may be

(*b*) The primitive annual national income of Holland in 1803, was rated by *Meklenkamp* at 200 millions in Dutch Florins; that of Prussia by *Krug* about the same time, that

be pointed out from which it may at least be inferred in general, whether the national income be large or small, and whether it be properly or improperly distributed.

When the soil of a country is fertile ; when agriculture, manufactures, and commerce are flourishing, and the greatest part of the inhabitants employed in useful labour, a nation certainly enjoys a considerable income. When every one who is able and willing to labour easily earns enough to support a family, and to save a little for times of need ; when the land is not in the hands of a few ; when capitals are abundant, and the middling ranks embark their money in productive concerns, the national income is properly distributed.

The produce of the soil may be calculated with some degree of probability from the ave-

that is to say, before the peace of Tilsit, at about 261 millions in Prussian Dollars, viz :

The produce of Agriculture at	210,983,000	Dollars.
Horticulture	16,463,000	
Forests	13,000,000	
Mining	3,000,000	
Fisheries	3,000,000	
The Chase	2,000,000	
Manufactures	12,500,000	
and Commerce		
	260,946,000	Dollars.

rage

rage produce of a certain number of acres, with the necessary allowances for the differences of soil : but the value superadded to the raw produce by manufacturers is not so easily ascertained. Public registers rest on very uncertain foundations ; they take no notice of the produce of artists and handicraftsmen, which is altogether of high importance and in some countries greatly exceeds the value of the goods manufactured upon a large scale. The commerce of a nation is in some degree limited by the produce of its agriculture and manufactures ; the means employed to ascertain its extent are however extremely deficient.

That the manufacturer and the merchant consume part of the value of their productions in food during the time they produce them, and that this food is frequently taken from the agricultural produce of the year is very true : but this circumstance does not strip their productions of the nature of a real portion of the primitive income of the nation. It is the additional value which the manufacturer and merchant produce which constitutes it a real income. How every private income is employed, whether it be instantly consumed or accumulated, is perfectly immaterial. Care must be taken only not to

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the same article twice in the account ; the materials to which the manufacturer and the merchant give an additional value must not be reckoned again as a part of the primitive income, as they are noted under the head of the raw produce of the country.

CHAP. VI.

Of Circulation.

THE primitive distribution of the national income places in the hands of every co-operator in the production of commodities a certain quantity of articles which supply only part of his wants. To satisfy them completely he requires some of the commodities which others have obtained. This occasions a fresh distribution of the primitive income among the co-operators in the production of different articles. They barter their goods among themselves according to the standard of their respective wants, and this interchange constitutes circulation.

Circulation may therefore be defined a repeated exchange of commodities to supply the respective wants of every member of the community. It begins with the very first existence of any produce. Some articles are even exchanged by contract long before they are produced. The commodities which the labourers receive at the primitive distribution of the national income do not consist in the exact produce of their labour, but in

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an equivalent which they like better, and for which they gladly resign their share in the actual produce of their labour. The primitive distribution of commodities is a mere fiction, built on the supposition of a previous contract purposely entered into by the co-operators in the production. Labourers are chiefly paid with money, or any other circulating medium, without the aid of which few commodities could be produced. None are completed before the requisite labour has been bestowed upon them. The labourers however must be subsisted during their labour; very few indeed have a stock sufficient to live upon, till their labour be performed; they must receive beforehand the value of the probable future share of their production for their support. Circulation commences between the undertaker and the labourers, before the produce is brought forth. As it is either only one kind of want that their produce supplies, or as it is frequently not at all calculated to satisfy any want of the labourers, for instance, when this produce is merely a component part of a commodity, that must pass through many other hands at different places before it be completed; or when a value is simply super-added to a rare object of no use or of too high

high a price, labourers would fare very ill if they were obliged to take their reward at all times in the produce of their own labour. They prefer a commodity which actually supplies their wants, or in exchange for which they may easily get them supplied. This is the first foundation of circulation. And as every other member of the community, besides the labourer, receives, likewise, a number of commodities not at all calculated for the immediate supply of his wants, but which others are in need of who happen to be possessed of such as he requires ; this circumstance keeps a great part of the stock of commodities belonging to a nation in continual circulation.

The whole national income, with regard to its immediate use, may be divided into consumable and productive property. The former is the aggregate of the commodities which every member of the community destines for his immediate maintenance or support ; it constitutes the consumable capital. The latter is the aggregate of the commodities destined to be exchanged for other commodities, it constitutes the productive capital, which is either a fixed or a circulating capital, according as it produces something without leaving its possessor, or by departing from him to be circulated. Every capital stock destined for

for circulation, or for sale, belongs to the circulating capital; but it may go over to the consumable or fixed capitals. Any produce whatever may belong to, and mostly forms part of, the circulating capital for a time. But no commodity is constantly circulating, or destined only to circulate, except money. All other goods have hardly acted once or twice, the part of a medium of exchange, when they pass over, either to the consumable, or to the fixed capital. Money alone generally continues circulating as long as it is of value, and every commodity, in civilized societies, being purchased with money, or at least the value of every thing calculated in money, circulation often denotes only the circulating coin of the country. The circulating capital, taken in that restricted sense, means the exact quantum of money circulating in the nation. This, however, is not perfectly correct. Circulation embraces the whole surplus of commodities. It is only where there is much, that much can be exchanged; and as circulation consists in the mere exchange of extant commodities, it cannot augment the quantum of wealth. But though it does not increase its amount, it yet increases its value, and that both its real and exchangeable value, because without this circulating

culating capital, a very slender portion of the total amount of the national wealth would be useful, and because its circulation requires time, labour and skill, which, as they cannot be had for nothing, occasion an additional compensation. It is for this reason, that those who make circulation their business, that is to say, the individuals engaged in trade, are entitled to a primitive share of the national income, and ought to be considered as co-operators in its original production. [B. II. CH. V.] They help to produce a part of the value of commodities, or in other words, they superadd a value to their value. Commodities frequently acquire this additional value through the mere act of being exchanged, whenever this exchange is useful. A is possessed of a commodity, the original value of which is ten pounds, and which B stands in need of; B has another commodity of the same original value, which A would like to have. B's commodity is therefore of somewhat more value to A than his own, just as A's commodity is more agreeable to B than that which he is possessed of. They both fancy they shall be gainers by the exchange, and none of them is disposed to sell the commodity again at ten pounds; were this the case, they would have made an useless ex-

change. He who wishes to purchase either commodity after it has changed its owners, must at least give somewhat more than its original value, that is to say, he must compensate the trouble of the exchange. But the more time and labour this exchange takes up, the more it must augment the value of commodities, and the larger must be the share which the individuals concerned in the exchange obtain of the quantum of national wealth; that share, however, is granted to them only as far as the exchange is necessary to the growing or producing of the commodities, or as far as those commodities would have been of no utility without circulation. If the London corn merchant, or the London baker, did not exchange his bank notes, the representatives of coin, and of course of other commodities, for the bread corn of the Norfolk farmer, the corn grown in Norfolk would, comparatively, be of no use to the inhabitants of London. They would individually be obliged to go and fetch it at a far greater expence. To circulate, is to convey to every one, from the total mass of commodities, that share which he requires, or, in other words, to distribute the whole national income in the easiest, cheapest, and most convenient way among the individual members of the nation,

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according to every one's request against equivalents. Circulation is always beneficial, and the true promoter of human industry. It may truly be said to co-operate in the production of commodities; without it there could not be so many commodities produced. It is an essential condition of production, a *conditio sine qua non*.

As every producing power is the better for consuming little of its produce, or as an engine is so much the more perfect, as it affords an equal benefit, or renders equal service at less expence, circulation, considered as a machine that promotes production, is the more advantageous the more it answers its end at, comparatively, small expences, in proportion to its extent. He who keeps a stock for circulation, requires interest for the time it is kept; the carriage, housing and preserving of the commodities, and the money capital necessary to effect circulation, occasion other expences, which increase the value or diminish the quantity of commodities. The more such expences are reduced, the better it is for the community at large. A greater mass of produce may be distributed, because whatever is saved in circulating expences is an addition to that mass. Expences may be diminished, 1st, by avoiding a prejudicial circu-

lation by means of the grand promoter of human comforts, the division of labour, which leaves circulation as a distinct business to individuals who, devoting their attention exclusively to it, perform it in the best and cheapest way; and, 2dly, by reducing the costs of the instrument of circulation, money. Circulation is useful only when the capital given away is compensated by a real equivalent. If it be a mere transfer from one individual to another; if he who parts with money or commodities, receives no equivalent; if the value of one commodity be merely imaginary; if a valuable commodity be circulated to be consumed unprofitably; if the circulation takes a circuitous road, and is attended with unnecessary delays, it is prejudicial. To be beneficial, circulation ought to promote productive labour, or the national income ought to be distributed to such members of the community who, besides giving an equivalent for the commodities they obtain, reproduce a similar, or still greater, value; and every commodity ought to be conveyed to the consumer by the shortest road, and in the least possible time. The utility of circulation is increased by its velocity. The quicker it takes a surplus off the hands of its possessors and conveys it to those who

who want it, the greater is its usefulness. A surplus of commodities, as a mere surplus, is useless; but when it reaches its destination, it either serves to consumption, or produces new riches. Wealth is both replaced and reproduced in proportion to the rapidity of circulation.

The principal instrument to accelerate circulation, is money. Indeed it is money alone which renders exchanges upon a large scale possible. Yet, in itself, it is good for nothing but to promote exchanges, it always remains a circulating capital. To procure its prime material, to give it the proper form and shape, to convey it from one place to the other, &c. occasions unavoidable expences; the more the latter are diminished, the greater is the remaining quantity of valuable commodities which the nation is enabled to enjoy in their place.

CHAP. VII.

Of Real Money or Coin.

REAL money or coin ought to consist of a material which has a value in itself. It is this internal value alone which establishes its power to obtain something in exchange. Assignments, or orders for the receipt of this material, are no real money; they derive their power from the confidence that real money is readily to be had for them. The material fit for real money must have the qualities stated before [B. I. CH. IX.] It is for combining all those qualities in a superior degree that metallic money has obtained the preference, and it is this preference which, in its turn, has increased the value of the finer metals.

As real money is a commodity which every one knows and every one takes with pleasure for the surplus of his commodities, it is best calculated to facilitate and accelerate exchanges. But as something is given for money merely because it contains a certain quantity of metal of acknowledged fineness, it fulfils its function of a general medium of exchange, and improves circulation more effec-

tually, 1st, when every one is convinced of the internal fineness of the metal contained in every individual piece of money; 2dly, when its declared fineness is invariable, or its value constant and unchangeable; and, 3dly, when the coin is so contrived that a great and a small value may alike be instantly settled in money without confusion. These advantages are the result of skilful coining, or converting pieces of metal into money under public authority.

Coin, to answer its end most completely, ought to be made of metal of invariable fineness; the quantity used in each separate piece ought to be marked upon it; there ought to be a proper proportion of large and small coins to facilitate the exchange of the most trifling commodities; the coins ought to be of a form which allows little deterioration by friction; to counterfeit them must be a matter of extreme difficulty, and their declared fineness must never be arbitrarily or secretly altered. The way in which money assists in the increase of national wealth is by facilitating exchanges; and no quality renders it so fit for this purpose as permanency of value, by means of which it measures the value of other commodities more accurately and more readily. The additional value imparted to the metal

by coining is equal to the expences occasioned by the operation, which are paid with pleasure wherever money is wanted. But when money is considered merely as metal or merchandize, the expences of coining are not taken into the account.

Every change in the coinage of a country alters the relative value of all other commodities to money, and causes great confusion in the common concerns of life, even when it is introduced under the sanction of the chief magistrate. And if any deterioration takes place secretly, all those who accept of the debased coin in payment, are cheated out of the proportionate value of the deficient weight or fineness. When it is the exchangeable value of the metal used in the coin that is altered, the relation of all other commodities to the metal is changed, and more or less money must be paid for them in proportion as the price of the metal used in the coin is risen or sunk. But as such an alteration happens only gradually; the revolution which it causes is by no means as fatal in its effects as any sudden alteration in the coin itself. When coining is a free trade, or performed by private individuals under the sanction of government, coin is obtained at the smallest possible expence of coinage: but when the mint is a monopoly

monopoly of the state, it may drive the feignorage or price of coinage as high as the wants of those for whose convenience the money is coined will allow (c). Were it to be higher, the demand for money would be inconsiderable ; or if the state itself sets the coin into circulation, it could not obtain a greater value above its fineness than what the advantage of a legal coin is worth to the holders of other commodities. Good metallic money is not a sign of value ; it is a real value in itself, like any other commodity.

But whatever may be the comparative importance or advantages of metallic money, its direct use is merely to facilitate the exchange

(c) It is to the want of an adequate feignorage that England owes the rapid disappearance of the great silver coinage of King William, which was conducted at an expence of three millions sterling. Mr. *Musket*, in his Inquiry into the effects produced on the national currency and rates of exchange by the bank restriction bill, suggests the propriety of a small feignorage on gold coin. Were this only one half per cent. it would nearly defray the expence of coining, and would tend to lessen in the only proper way the speculation in the export of guineas, which is neither wisely nor effectually discouraged by prohibitory laws. On silver the feignorage ought to be ten per cent. Mr. Musket takes five millions as the amount required for the silver currency of Great Britain. Considering newness and uniformity in coin as the best security to the public against base money, he suggests also that the silver coin should be regularly called in after ten years of circulation.

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of commodities, or to promote their circulation, and as the raw material and the coining are both expensive, a nation has a greater command over commodities affording immediate enjoyment, or a greater stock of active and productive capital, the smaller the amount of the metallic money with which its circulation is performed, and the greater its saving in the expences of metal and coinage, without prejudice to the circulation (d). [B. II. CH. II.] These considerations have induced several na-

(d) It is perfectly immaterial whether the business of circulation be performed by a greater or smaller quantum of substitutes to coin. The aggregate value of the circulating medium of a country, combined with the velocity of its circulation, and the various expedients resorted to for economizing its use, is never arbitrary or accidental, but always determined by the business which it is destined to perform. In whatever way the sum necessary for carrying on the circulation of any country may be expressed, its real value must preserve a steady relation to the value and frequency of the payments to be effected by it. When it has once adapted itself to the extent of its appointed employment, and has been found to give all possible facility to commercial exchanges, the country ought neither to be deprived of any portion of that circulating medium, nor ought it to be unnecessarily increased. Wherever the paper circulation of a country is increased without any corresponding increase in the demands of its commerce, no part of the additional circulating medium can find employment until by its depreciations the quantity of currency is rendered substantially the same as before. See *Foster on Exchanges, reviewed in the Edinb. Rev. of October 1806, No. XVII.*

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tions, 1st, to effect their exchanges with as small a sum of money as is compatible with the magnitude of the national income, by increasing the rapidity of circulation; 2dly, to save the expences of coinage as much as possible, by avoiding all unnecessary payments in coin; 3dly, to employ capitals bearing interest as a medium of exchange; or, 4thly, to impart the power of money to less expensive materials.

Money is never consumed; it may always be applied again to fresh exchanges as soon as received, and innumerable commodities, each as valuable as a given number of pieces of coin, may successively be obtained in exchange for the same identical pieces of coin. An immense quantity of commodities may be paid for in succession with a comparatively small amount of money. A general who has just received his pay out of the public treasury, settles his butcher's bill with one hundred guineas. The butcher pays the identical guineas for cattle to a grazier. The grazier pays them as rent to his landlord. The landlord settles his faddler's bill, amounting to one hundred guineas: the faddler immediately carries them to his leather merchant, who pays them to his wine merchant. The latter gives them for clothes to his tailor: the tailor settles

settles his clothier's bill, to the same amount. The clothier purchases one hundred guineas worth of wool of a farmer with the same identical guineas, which the latter takes to his landlord's steward for rent. The land-owner orders them to be sent to his bookseller for books; the bookseller takes them to the paper-manufacturer, who pays them to his rag merchant: the latter gives the very same guineas to a wheelwright for a waggon, and the wheelwright pays them to his timber merchant, who carries them to the Royal Exchange to buy a bill on Hamburg, to remit to his correspondent at Memel. The banker on whom the bill is purchased locks the guineas up in his iron chest, where they remain a few days, at the end of which they are again circulated. Thus in the first instance one hundred pieces of gold coin served to purchase their value over and over again, in meat, cattle, saddles, leather, wine, clothes, cloth, wool, books, paper, rags, a waggon, and timber, and to pay a rent to two landlords; or commodities worth 1600 guineas, were exchanged and distributed by the help of one hundred.

Metallic money constitutes, every where, a very small component part of national wealth. Whatever the producers consume of their own produce is never exchanged, and, as so many different

different exchanges may be effected with one and the same piece of money, the amount of metallic money is, in every country, considerably below that of other commodities. Even the sum in actual circulation, or the repeated payments made with the same identical pieces of coin are far beneath the value of the remaining commodities of the nation, because many exchanges are effected without the intervention of money. The greater the rapidity with which money performs its function, the quicker it is applied to fresh exchanges; or the quicker it flows from one pocket into the other, the less may the amount be which is destined for that use, or the larger is the number of payments that may be effected. If, within the same given time, ten purchases are made, with the same identical pieces of coin in one country, whilst five only are made with the same pieces of coin in another, the former is enabled to purchase twice as much with the same quantum of money, or, in other words, it may reduce its circulating coin to half the amount of that of the latter. There is also in the very nature of money a motive for hastening its circulation. Money in itself affords no enjoyment, and yet it is not to be had without an equivalent: the instant it is procured it is usefully employed; some

some commodity is purchased for consumption, or it is applied to productive labour. In either case it must depart from its possessor, and circulate.

A rapid circulation of money is a proof, and becomes in turn, a cause of prosperity, by invigorating the industry of the nation, and diffusing it all over the country. When the efforts to acquire property are general, every one keeps as little ready money in hands as he possibly can ; every piece of coin that can be spared is immediately turned to advantage ; and wherever a perfect freedom of trade is established opportunities for doing so are never wanting. In a flourishing country, important payments are commonly made in a few places, or even in one place only. Great Britain offers a striking instance of an uncommon rapid circulation, due to the circumstance of the country bankers being connected with the bankers of the metropolis, and all great payments being effected in London only. The state has also a powerful influence on the circulation of a country, by allowing the contributors to the public expences to pay the taxes by small instalments, by obliging the collectors in the country to make immediate remittances to the treasury, and by keeping as little ready money in the public

public chests as is compatible with the public service.

The second expedient that has been adopted to reduce the circulating money capital of a country, is to avoid paying in coin. But the means of accomplishing that purpose cannot be properly investigated before the nature of credit be well understood.

CHAP. VIII.

Of Credit.

CREDIT is the aggregate of the qualities by which an individual inspires the confidence that he will fulfil his pecuniary engagements; or simply, the opinion that he who has entered into an engagement is able and willing to perform it. Credit therefore rests on the conviction that a debtor possesses more than he owes; that he may at any time convert his property, or part of it, into such commodities as he has promised to give in payment; and that his moral character, and his own advantage, as well as the laws of the country, will induce him to perform his engagement. The more generally this opinion is entertained of a debtor, and the more it rests on a solid basis, the more firm and permanent is his credit. A perfect conviction that an individual has more property than debts can be effected only by an open disclosure of the state of his affairs. The opinion that he is able to pay the sum he owes, out of his property, rests on the presumption that he can convert his stock of commodities, as soon as required, into money. The supposition

tion that having property, he actually will pay, proceeds partly from the known personal qualities of the individual, inclining him to the performance of his duty, and partly from the strong arm of the law, which forces every debtor to pay as long as he is able, and from the strictness with which that law is enforced. All these circumstances combined, afford what is called sufficient security, or a good basis for credit. Security, namely, is the moral certainty of receiving a promised payment at the appointed time. It has different degrees, determined by and proportionate to the degrees of credit. The highest degree of security is obtained either when the whole value of a debt is entrusted to the creditor in some other commodity, with the right to pay himself out of it, in case of need; or when an exclusive right is granted to a creditor to take his payment at a certain given time, out of a commodity of the debtor, which has a permanent larger value than the amount of the debt. Such is the security connected with pledges or pawns, mortgages, bills of sale, or any other assignment of a part or the whole of the debtor's property. A credit founded merely on the general opinion that the debtor has the power and the inclination to pay, affords a lower degree of security. It is called personal security, in opposition to the

former, which may be denominated real security. A debtor who employs the borrowed capital in productive labour, who has displayed great ability and prudence in the management of his affairs, and has long been known for his good faith, probity, and punctuality, enjoys a great degree of personal credit. Confidence in the power and inclination to pay, constitutes, with regard to private debtors, private credit; with regard to the state, it is called public credit. Both are built upon similar principles.

No trade of any importance can be carried on without credit. It is impossible that all exchanges of goods should be instantly effected on the spot. The moment an individual obtains a commodity without giving an immediate equivalent for it, he becomes a debtor, and requires credit. There are besides so many reasons which establish a confidence that the persons to whom we trust our commodities will not deny us the proper equivalent, that credit is soon obtained, and where there is credit, exchanges are uncommonly facilitated. Credit even increases the wealth of a nation in an incredible degree. It affords the means of avoiding payments in coin, and creates cheap substitutes to metallic money.

CHAP. IX.

Of the Means to avoid paying in Coin.

IN countries where commerce is flourishing, merchants have frequent dealings with each other, and consequently frequent payments to make and to receive. Were they obliged to perform them in coin much time would be wasted. The instant confidence is established between them, they resort to the expedient of noting simply what they have to pay to, or to demand of, each other, and they settle their accounts at the end of a certain period, by paying the balance that may be due. Thus an immense number of payments is avoided among commercial men, of the same or of different places; business is transacted with less metallic money, and the coin does not suffer from its too frequent circulation. But the establishment of a bank affords still greater facilities. In that case the merchants deposit the metallic money, which they would be obliged to keep in their own houses to meet the demands of their creditors, in a certain building called a bank, and get their mutual payments noted on the

debtor and creditor side of their respective accounts. When the metallic money that has been deposited actually remains in the bank, the greatest possible security is obtained, and credit is only so far concerned, as the keeping of the money and noting of the payments must be entrusted to a few individuals. Every creditor receives his payment really in money, since it is added to his deposit from the deposit of his debtor, and that which formerly belonged to the latter, is, by this addition to the creditor side of his account, acknowledged to be his. When part of the deposited capital is expended and employed for other purposes, the estates or effects which are mortgaged or pawned for the money expended, constitute also a good security. When these effects are of such a kind that they may almost instantly, or in a very short time, be re-converted into ready money, this security is not impaired: but when they are of such a nature, that the money cannot be had on demand, or at a short notice, the security is diminished. Though it would not expose the bank to any embarrassments in ordinary times, it yet might prevent the due performance of its engagements in times of difficulty, when much money is withdrawn at once, such effects

effects not admitting of an instantaneous realization.

The principal advantages which accrue to a commercial nation from such a deposit bank are, that their money is securely housed, and that, besides relieving them of the trouble of counting, weighing, trying, comparing different pieces of coin, it renders errors in payments next to impossible, and saves, along with the coining expences, whatever the coin might have lost by friction in being circulated, under the supposition, namely, that the deposited sums are left undisturbed. When the bank lends part of the money upon proper securities, it multiplies the means of payment by the sum lent to the borrowers, without entailing any expences of coinage upon the nation. The credit obtained with the bank, by the actual deposit, forms one sum, and that lent out constitutes another. And whatever contributes to protect the actual deposits against external violence, to leave them religiously untouched for any other purpose, were it even a public one, and to facilitate the admittance of those who have deposited their money in the bank, to inspect its accounts at any time, tends to increase the security of such a bank.

As there are commercial connections between different countries, merchants have often payments to make at a great distance from home. To avoid remittances in coin, bills of exchange have been contrived, by which the means of payment are at the same time considerably multiplied.

Orders for the receipt of a commodity are written powers of attorney, given by one individual to another, to get money or goods delivered to him by a third. It is of the utmost convenience to distant debtors and creditors to exchange their debts to, and demands against, each other by means of such orders, so that every one may receive of, or pay to, his neighbour what he has to receive or to pay at a distance. That kind of order by which such an exchange of debtor and creditor is effected, is called a bill of exchange; or a bill of exchange is an order for the receipt of a given sum of money in a foreign country. By means of such bills of exchange, the debts of a country may be compensated with its demands upon the country to which it is indebted, and so much metallic money only needs to be remitted as its debt is exceeded by the amount of its demands. A country that is indebted to another,

another, upon which it has neither direct nor indirect demand, cannot pay its debt in bills of exchange.

The principal advantages resulting from bills of exchange is, that they save money by diminishing the expences attending remittances in coin, and by preventing the risk of the money being lost during its conveyance, and that they make credit supply for a while the place of coin, great sums being thus settled without any intervention of money. This last advantage is considerably increased through the endorsing of bills of exchange. As they are payable only after a certain length of time, they may be employed several times, from the day they are drawn to that on which they are due, as mediums of payment, and thus supply the place of ready money. This is done by an endorsement on the back of the bill, or the repeated cession of the lawful claim to the payment promised in the bill of exchange. Even when a bill serves only as a pledge, and procures the holder ready cash by means of its being discounted, it supplies the place of real money by mere credit, and affords uncommon facility to commercial transactions. Bills of exchange, however, derive their validity only from the money which they promise to pay, and from

the certainty that it will really be paid at the time fixed in the Bill. In proportion as the confidence that the payment is sure to take place at the appointed time abates or ceases, the validity of such bills is weakened or destroyed. It is therefore most solid when the bills have their foundation in a real commercial debt, and a real commercial demand. When, namely, a merchant has got merchandize of another, the receiver of that merchandize, as debtor, has at the same time means (the goods themselves) on which a hope is reasonably built that he will be able to pay his debt, and the seller, as creditor, has actually a real demand upon him. Good bills of exchange rest on this solid foundation. The credit of accommodation bills, that is to say, such as are drawn upon individuals who owe nothing, and accepted merely upon the strength of the credit of the drawer, and not for any goods received, is a bare personal security ; they are masked common notes of hand or promissory notes. They afford means of borrowing for a time in a covered way upon a fictitious credit by being discounted. They too save the use of coin : but as they do not rest on any firm foundation, they frequently occasion losses widely exceeding the benefit they may chance

chance to yield. They promote the private advantage of an individual at the risk of the property of others, and must therefore be spurned as a dangerous abuse of the credit attached to good bills of exchange.

CHAP. X.

Of cheap Substitutes for Coin.

THE incitement to do without the precious metals, and to find a cheap substitute for real money, is so great, that individuals entrusted with supreme power have frequently suffered themselves to be betrayed into the dangerous practice of circulating coin at a higher value than it contains in metal. The expenditure of the state being generally considerable, governments can make those to whom they have to pay accept of their money at a higher value, by taking it back again at the same value. The money in that case circulates at this superior value upon the credit of the state, or in the confidence that government takes it back again at the same value. But when either this confidence is weakened or shaken, or when the money is paid to those who have neither direct nor indirect business with government, such a debased coin cannot be circulated at a higher than its intrinsic or metallic value, or at least only as far as the monopoly of coining vested in the government, con-

joined with its power, can enforce its circulation. The loss to those who are obliged to take it at a higher currency is evident. A coin thus artificially raised beyond its value, is properly nothing but a metallic draught upon government, and is worth only as much above its intrinsic value, as the confidence in the good faith of government warrants the hope that it will be paid in full. To keep up the validity of such coins governments ought to establish offices provided with a sufficient stock of the finer metals uncoined, where every one that requests it might at any time receive the full value at which such base coin is circulated. All that can be done with any degree of safety is to circulate an inconsiderable part of the lesser coin called small change, at a higher than its intrinsic metallic value, so as not to exceed the interior circulation of the country. But even in this case the saving of the finer metal is very trifling, and the profit of government is more than overbalanced by the loss which accrues to the country at large. If there be too much of such small change circulated, it is not only troublesome but liable to pay an agio, which is so much lost to the country. Its little intrinsic value and indifferent coinage offer besides an encouragement to false coiners.

coiners to inundate the country with an adulterated coin. All these inconveniences have lately been experienced in Prussia, where the small change of the country consisted chiefly in pretended silver six-penny pieces, equal to three-farthings sterl. which, the moment the invading French army advanced to Berlin, were no longer received but at their real value of one halfpenny sterl. The nation thus suffered a loss of better than 33 per cent. upon the greatest part of its circulating capital. Small change of that kind is something thrown into general circulation by great manufacturers and merchants of known stability. Like the bills of exchange drawn by commercial houses, such coins pass current as long as the opinion prevails that they will at any time be taken back by the issuers at the full value at which they are issued. They can only be considered in the light of cheques, orders, or tokens, and not as the actual value to the receipt of which they authorize the bearer. As mere expedients dictated by necessity they are not entitled to much commendation.

Bank notes are a much cheaper substitute for gold and silver than any base small change. As it is not always material to receive metallic

tallic money, provided there be an absolute certainty that it may be had at any time, a promise given to that effect in a note of hand is as good a payment as coin, when the public at large is convinced that the instant metallic money chances to be more useful it may be obtained in exchange for the note. This confidence, this conviction, that the coin may be had at any time, proceeds chiefly from the principles upon which public banks are formed. Individuals who jointly establish a bank, issuing notes, must be possessed of capitals sufficiently large, to inspire the confidence that they will conscientiously perform their pecuniary engagements. Their notes represent a certain proportion of the current coin of the country, and they engage to give that proportion of coin in full for them whenever their notes are offered to the Bank. In a deposit bank, the coin deposited is placed to the credit of his owner; in a bank issuing notes, the amount of the sum deposited is immediately paid in notes, promising to pay the bearer of any such note, on demand, the sum expressed in the same, in metallic money; which may easily be done at all times, if the coin deposited be actually kept in the bank. Such bank notes are therefore much more convenient than the proceedings of

of a deposit bank : they save the trouble of keeping the accounts of the different individuals who lodge their money in the bank, and enable them to pay distant creditors, or any one who has no account with the bank.

A certain quantity of money to facilitate the purchase and sale of commodities, is as much wanted in every nation as the commodities themselves. A seller, however, is not so much interested in receiving ready money for his merchandize, as he is in being enabled to pay those to whom he is indebted. The bank note gives him that power ; the individual to whom he transfers it may get coin for it whenever he likes ; and many sellers or traders, being of the same way of thinking, the same bank note may, for a great length of time, supply the place of the coin which it promises to pay to the bearer, and be circulated in its stead, until some one has occasion to carry it to the bank to exchange it for coin. Bank notes are, in fact, more convenient than coin ; they facilitate large payments, are easily conveyed or carried about, and accomplish every purpose of money as far as their credit goes. They are particularly acceptable in a country that has large commercial dealings, and whose merchants enjoy high credit. In such a country few are returned

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to the bank to be exchanged for coin. The metallic money which has originally been deposited for them being locked up in strong chests, the bank, as soon as it perceives that a great quantity of its notes remain in circulation, and that it requires only a small amount of coin to take up the few which are returned, may, without danger, issue more notes than its deposits amount to. It may either lend the surplus of its hard cash upon good security, and make advantageous purchases, or it may increase its notes beyond the value of its coin, and pay them away by discounting good bills of exchange. When the issue of notes does not exceed the real stock of hard cash in the bank, it saves only the expences of coinage, notes of paper being cheaper than the coining of metal, and preventing the deterioration of the coin by friction. But if with a third, for instance, of the ready cash which the bank has got, it engages in business, it increases the medium of exchange in the same proportion, at a trifling expence; and if it issues a third more notes than its remaining stock of hard cash amounts to, the mass of the circulating money capital is increased by another third, through the credit of the bank. Supposing the nation has actually occasion for all this money, it is obvious that it would have

have been under the necessity of purchasing with labour, or the produce of its labour, two-thirds more of the precious metals, which circulate as coin in the country, whilst their amount is completely supplied by the bank notes. This sum of labour, or produce of labour, deducting the little which the manufacture of the bank notes costs, may now be either consumed, or employed in the re-production of useful commodities. Money is the engine which effects circulation and the production of commodities. Whatever is saved in the cost of the engine helps to increase the produce of the country, and leaves a larger share to every one of its inhabitants. When once the bank notes are generally preferred to hard cash, a part of the coin being superfluous, grows cheaper than in other countries, where no bank notes supply the place of metallic money, and is consequently exported against commodities, which afford an equivalent so much the more profitable, as they either supply necessary wants, afford new enjoyments, or procure fresh employment to the industry of the nation.

To insure all these eminent advantages, banks must, however, observe certain rules, which they can never violate without danger.

1. The quantity of notes which a national bank may issue with profit to the country must be regulated by the number of payments to which they can be readily applied ; consequently it can never exceed the amount of the money wanted for payments at home. How much of this may be supplied by notes depends on the credit of the bank, and on the particular customs and habits of the nation.

2. The bank must keep the value of its notes constantly at par with the national coin, by giving at all times hard cash for them in full on demand ; it must therefore be always provided with such a stock of coin, that it may never incur the necessity of avoiding or delaying taking up its notes when presented, which would instantly cause them to be at a discount.

3. The bank ought to lend on such securities only as may be redeemed in a very short time, or immediately converted into money ; or rather it ought never to part with any of its notes but against their full value. Its notes being on demand, the bank would be best secured against all embarrassments if it lent only upon good bills at sight. As this, however, would be perfectly nugatory, and can never be the case, and as the bank

may calculate the probable demands coming upon it in a given time, it risks little in discounting bills of a short date, provided there be not fresh bills drawn to take them up. The pernicious practice of drawing and re-drawing accommodation-bills between commercial houses of little property, ought to be especially guarded against. The bank may also lend on pledges, which, after the term of their redemption is elapsed, may instantly be converted into money: but it ought never to lend its notes on mortgages, or any security which cannot be thus converted in a very short time. How great soever the value of mortgages may be, they cannot answer any immediate demand.

Paper money differs from bank notes. It rests upon the mere credit of government, whilst a bank is necessarily possessed of a known capital, to which every holder of its notes has a legal claim in proportion to their amount. The instant government commands bank notes to be received upon the strength of its own credit, they become paper money. When any government circulates paper instead of gold and silver, it either promises to give hard cash for it on demand, or at least to redeem it at the end of a certain time. If, in the first instance, government is punctual in

in the performance of its engagements, or, at least, constantly attentive to keep the paper within such bounds that its quantity does not exceed the wants of the country, paper money is assimilated to bank notes, and must be subjected to the same limitations and restrictions. In the second case, when the credit of government is good, the promise of a future redemption is generally confided in, and the paper approximates the value of coin in proportion to the extent of this confidence, provided it does not exceed the amount wanted in circulation. Even when the credit of government is not very great, its paper has still some value as long as taxes and debts may legally be paid with it. In short it will maintain some degree of credit as long as there is any hope left that the holders may recover its value at some future time: but the instant this hope vanishes, paper money sinks to nothing in spite of any violent efforts to uphold it. The lamentable history of the French assignats has fully exemplified the soundness of these principles.

Shares in great national undertakings, in solid commercial enterprizes, or in the public funds, called stocks, may also be used as mediums of payment, or substitutes for coin.

A country where shares of that kind may be sold at tolerably regular or steady prices, wants less ready money for its exchanges, or a smaller money capital, than a country which is deprived of such auxiliary means.

BOOK IV.
OF THE CONSUMPTION OF THE WEALTH OF
NATIONS.

CHAPTER I.

Of the different Kinds of Consumption.

TO consume is to destroy the utility or value of things either entirely or in part. It is the opposite of production which is giving value to a thing. Consumption is no more an annihilation than production is a creation. Some things are consumed slowly, others quickly; some at once, others by parts. Even time and labour may be wasted. Some consumption is the effect of chance, some is intentional. One is effected by nature; the other at the will of men. A capital may be consumed. Landed estates cannot be substantially consumed; yet they may be deteriorated; their improvements, their useful properties may be lost. Consumption can as little be measured by quantity as production. It must be estimated only by its effect upon the quality of things, it is a destruction of their value. The loss arising from consumption is

felt, first by the owner of the commodity consumed ; yet it always is a loss to the community at large ; the wealth of the nation is the wealth of its individual members.

When a commodity is purchased with the view to have it consumed, the mere purchase does not effect this consumption, since an equivalent is obtained for the commodity that has been parted with. The purchaser is as rich after his purchase as he was before, and frequently richer, namely, when he has made a good purchase. It is only through the actual consumption of the purchased commodity that his stock is diminished. It is not buying, but consuming that makes poor. To purchase with the view to consume, is called to spend, or spending may be said to consist in disbursing money for things destined to be consumed. When a commodity is acquired without purchase, or without giving an equivalent for it, the former possessor is so much the poorer for it, or a loser : but the nation loses nothing. What one individual had before, is gone over to another. Whether the nation is ultimately a sufferer by such a transfer depends on the use which the new possessor makes of the commodity.

Consumption may be effected by nature, by individuals, or by the aggregate of the members

bers of a nation, and is accordingly called natural, private, or public. But there are different kinds of consumption in general, which must first be investigated.

A consumption which procures an advantage to its author, or to the nation at large, is useful; that which procures no advantage, is useless. Useful consumption may be considered as a loss which is compensated by a profit. This profit consists, either in a new component part of wealth which supplies the place of the consumed one, or in an enjoyment afforded to one or more individuals. A consumption by which another commodity is replaced, may be called productive. That which produces nothing in lieu of the commodity consumed, must be denominated unproductive, whether it be useful or not.

Reproductive consumption does not always reproduce the whole value of the commodity consumed; it is more or less reproductive. When it replaces the exact value of the commodity consumed, it does not diminish the wealth of the nation, it keeps it stationary. But when it is the means of reproducing a greater value, wealth is increased, and in that case it is a gainful, profitable consumption. Frequently, however, it may be advantageous to a few individuals only, and not to the com-

munity at large — when, namely, the value of the commodity consumed is not re-placed by a primitive commodity, but by another co-extant or 'pre-extant commodity. Such a consumption appears re-productive, without being so in reality ; to the community at large it is unproductive.

Unproductive, and at the same time useless, consumption is effected partly by nature, whose destructive power, which no human art can completely counteract, devours a great number of useful commodities ; and partly by man, who consumes many commodities without deriving any enjoyment from his consumption. Unproductive, but at the same time useful consumption is effected by man only. Re-productive consumption is also effected partly by nature, which in its destruction frequently produces something fresh, or increases a produce ; and partly by man, who necessarily consumes something, whilst he is employed in producing fresh commodities.

Consumption never augments, it always diminishes wealth. Yet it may partly be considered as the condition without which no new produce can be obtained. It is on that account only that it can be called re-productive. To avoid superfluous consumption is

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constantly most conducive to the increase of wealth. To lessen consumption in trades or callings, from which no person derives any advantage, or to direct it so that it may afford some enjoyment, is a most important duty.

In every consumption necessary to reproduction, all useless expences ought to be avoided, and those powers employed which consume the least during the production of commodities. Whatever is saved in the production of one commodity, may be applied to that of another. The waste of time, materials, and working powers in producing a certain quantity of produce, was formerly much more considerable than it is now, especially in some manufactures. The farther these savings of time and labour are carried, the more is the stock of useful commodities increased, in proportion to what its production costs. He who, in producing a commodity, consumes more than is absolutely necessary, diminishes the national wealth by all that he might have saved; and if this consumption does not add to his enjoyments, it is unprofitable. He who spends more than the amount of the produce, for the sake of which his money is spent, diminishes the wealth of the nation, as much as the spendthrift who satisfies immoderate desires. The latter

latter has at least some enjoyment, the former has none. To pay labourers merely for the sake of occupying them, is a wasteful prodigality, whenever their employment produces nothing that exceeds the value of their wages. Necessity may sometimes justify the measure; if it be resorted to, for instance, to avoid a greater evil. When a fall of the price of some manufactured goods, in a foreign market, throws many labourers out of employ, it may be expedient for government to enable the manufacturers to continue selling that commodity for a time, by means of a premium, rather than feed the labourers in idleness, or suffer them to be reduced to mendicity.

In that sort of consumption which is compensated by the enjoyment of the consumer, the commodities consumed are lost to the community at large, but they answer their end, and are of real service, though they leave no fresh commodity after them. Enjoyment is the object, or end of all property. Riches are desired merely to enjoy, or to procure comforts to others, which is indeed the noblest source of enjoyment. The desire of renewing and increasing wealth proceeds from the wish to be able to repeat, or to increase our enjoyments. How much an indi-

individual may consume for the sole purpose of adding to his enjoyments, must be left entirely to his own judgment. Every man is the best judge of the loss and gain that accrues to him out of his individual consumption ; it is regulated by his taste and by his means. But whatever commodities may be thus consumed, it is evident that they must have been gained by productive powers. Hence the larger the surplus, which reproductive consumption leaves of the commodities in existence, the greater the quantity of those that may be devoted to mere enjoyment. Indeed a great part of re-productive consumption is also compensated by enjoyment ; those commodities, namely, which are consumed during the labour of man, afford him enjoyments equal or superior to those of the idle consumer, though he substitutes almost immediately a commodity of higher value. That consumption only must be regarded as totally unproductive for the nation, which, though it affords enjoyment to one or a few individuals, is replaced by no material or mental benefit to society. When such unproductive consumption does not exceed the annual gain of the nation, it does not diminish its wealth ; when it leaves a surplus, the national wealth is increased

creased in spite of that consumption: but it can never go beyond the surplus, produced by the nation above the previous national capital, without injury to the national wealth. In the mean time it is obvious that a nation is so much more prosperous, the smaller the proportion of the unproductive to the reproductive and beneficial consumption. The happiness of a nation is the greatest, when every one of its members has the consciousness of a variety of permanent agreeable sensations; these have their main foundation in the abundant and regular supply of wants, and in the security with which that supply is enjoyed. But the more some members of the community consume, without re-placing the commodity consumed by any tangible or mental good, the more is the stock of commodities reduced for the rest, or the smaller is the share they obtain of the very productions which their industry has produced. There is no danger that, by encouraging re-productive consumption only as the most profitable, so much will be produced in the end that no individual in the nation will have any want left unsupplied, and that production will be brought to a stand. An increased production will always increase the number of productive labourers, whose

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consumption increases with their wages; whilst the augmented surplus of produce augments, of course, the number of unproductive consumers. But though unproductive consumption be partly necessary and partly allowable, its effects are more or less injurious at times. When it procures an important advantage to the community, as the maintenance of a standing army, it is conducive to national prosperity. When it satisfies real wants, inherent in human nature, it is better than that unproductive consumption which supplies the imaginary wants of a perverted sensuality, of caprice or fashion, &c. That which consumes its object slowly, is in general preferable to that which devours it rapidly. That which feasts long on one and the same object, is better than that which is unceasingly thirsting after some new object. That which admits of partakers, is generally preferable to a mere individual consumption. That which enjoys commodities of small value is more advantageous than a consumption which demands commodities of high value. And that consumption lastly, which prefers objects of home manufacture, is more favourable to the nation than that which requires foreign commodities. But whatever be the merits or the nature of unproductive consumption, it always

always has a greater tendency to diminish the wealth of the nation than the reproductive one, and can never be patronized without danger, except in countries where production is constantly progressive.

Nothing can be more extraordinary than the opinion of some political philosophers, that wealth is increased through unproductive consumption. They say, “whatever is consumed must have been previously produced; “ if it be consumed by the rich, it is sure to “ be reproduced. The greater the consumption of the rich, the more productive “ powers they set in motion, and the more “ will necessarily be produced.” Consumption is, with those philosophers, the measure of production; and as production enriches, consumption must have the same effect, the former being regulated by the latter. There is some truth, blended with many fallacies, in their argument. A nation, like a family, may consume the exact amount of its annual income, more than that amount, or less. If it consumes exactly as much as it receives, the nation grows neither richer nor poorer in the course of the year. Yet if it keeps no surplus it is in imminent danger of being impoverished; as population is progressive, the nation is sure to have more consumers the

following year, and if its income be not enlarged, the nation, it is true, will possess as much as before, but a greater number of consumers must share its income; and if the portion of every individual member of the community is curtailed, surely the nation is grown poorer. Besides in a nation, as in a family, it can never be accurately ascertained beforehand whether there may not be something more wanted the next year. Unforeseen accidents may entail fresh expences upon a nation, as upon a family. To consume their respective annual incomes is unwise in both; they both run the risk of retrograding. If a nation consumes more than its annual income, it diminishes its capital, the source of its income, which must of course go on decreasing from year to year. In that case the nation loses, 1st, the profits of stock which that part of its capital which it is forced to consume would have yielded; 2dly, the wages which the labourers would have derived from the employment of that capital; and 3dly, the capital itself, which of course can no longer produce any income. It is true that there must be every year as much produce as is really consumed: but in the present instance, it is stock that is consumed in addition to the produce of the year. This stock diminishes every year,

year, and every year the nation sinks deeper into misery. It is not a decreasing consumption, it is the diminished production, occasioned by an increasing unproductive consumption, which is the source of that misery. It is only when a nation consumes less than its annual income that it grows richer every year. In that case its capitals and its productive powers increase with the increased demand for its produce. The spirit of enterprise continually discovers fresh opportunities to acquire, and to augment the annual income of the nation or the means of its annual consumption. Under such circumstances, a more extensive unproductive consumption may take place with impunity: but far from being the cause, it is invariably the effect of a progressive national prosperity, and the happiness of the community is never promoted by an instantaneous or immediate consumption of its increased income. The permanent interest of a country requires, on the contrary, that part of this annual surplus be saved, and converted into fresh capitals, or, in other words, that the sources of wealth be progressively multiplied. When the savings of the rich are not locked up in strong chests, but consumed in reproductive labour, they flow into the hands of the industrious, who produce commodities,

commodities, the value of which is at once a new incitement to industry, and a new engine of wealth.

The unproductive consumption of a rich man may maintain a number of individuals, who minister to his enjoyments: but the capital thus spent disappears. Were a part of it lent to an undertaker, or did the owner himself embark a part of it in useful undertakings, it would probably maintain a greater number of individuals of the labouring class, afford the owner and the nation an additional income, and enable him to increase this income from year to year, his capital being continually replaced with an additional profit. Whatever the idle rich pay to unproductive consumers, who merely minister to ostentation, is completely lost; it is not replaced by any thing useful. What they pay to artists, and all who afford them rational enjoyments, is, no doubt, well bestowed: but it is that part of their income only which is converted into capitals employed in the country and going over to productive labourers, that increases the national income. It is true, that the object of wealth is enjoyment. The rich man is entitled to lead a more agreeable life than the poor one; and the prospect of the latter to approximate, at some future time,

the conveniences, pleasures, comforts, and enjoyments of the former, is a most powerful stimulant to the exertion of his strength and powers. The desire of leading a more agreeable life, when it is combined with the effort to increase one's wealth, and does not outrun the latter, far from counteracting the progressive increase of the national income, is the wheel that sets human activity and industry in motion, and promotes the production of wealth. But when this desire degenerates into a passion to consume, without thinking of replacing the commodity consumed, it stops the rotation of the wheel, and impedes the progress of a nation on the road to wealth. When luxury is predominant, it operates as a bar to national opulence.

CHAP. II.

Of Luxury.

LUXURY may be defined the act of incurring expences, with the sole view to appear rich (*e*). It is the joint offspring of ambition and vanity. It seeks its glory in spending much in the sight of others. It is satisfied with the magnitude of the sums expended being known, without caring for the utility

(*e*) By some writers luxury is used to signify every thing beyond the mere necessaries of life. With others it comprehends chiefly the objects of the fine arts; and with others whatever implies effeminacy of manners. Luxury in fact is a word that must vary in every age and in every country with the progress of civilization; it is not a positive, but a comparative term. What is luxury in one rank of life is not luxury in another, and the luxuries of yesterday become the necessaries of to-day. No general or permanent definition therefore can be precise. Sumptuary laws, which have attempted to define luxuries, have always been absurd and incompetent. On this subject common opinion is the only standard, and as this varies with circumstances, so must the conduct of individuals. In every rank and situation there is a certain style in living, in houses, equipage, furniture, which is usual to persons of that class. Whoever in any of these things vies with persons of a superior station, and passes the bounds of his rank and fortune, may be justly accused of being luxurious and extravagant. *Edgeworth's Essay on Professional Education.*

of the purchased commodities. Its object is show. Provided it dazzles the beholders, it cares not for the enjoyment which it procures to the partakers of its feasts (g). When luxury is satisfied with home productions, its mischievous tendency is less than when it feeds upon foreign commodities; in the latter instance it rewards chiefly foreign industry, and the capital consumed is much sooner lost to the nation. The rapidity with which it disappears proceeds from the circumstance that foreign articles are generally quickly consumed, or exposed to be thrown away as useless, according to the arbitrary dictates of fashion. Luxury is also unnecessarily destructive in its consumption. To assume the brilliant outside of extensive affluence, a vast number of commodities must be consumed at once, without affording any real enjoyment; and those who are admitted to the festive

(g) At an entertainment given by the Earl of Murray, in Scotland, to the Patriarch of Apulia, in the year 1544, although he had good store of silver plate, he ordered his side-board, beside the plate, to be furnished with Venetian crystal glasses, and gave his servants instructions to overturn it, as if by accident, in the midst of dinner. The noise of its fall alarmed the company, who expressed their regret for the loss: but the Earl making no account of it, ordered the sideboard to be refurnished with still finer crystal. *Hugo Arnot's History of Edinburgh.*

board

board would probably not fare worse if part of the capital wasted in idle profusion were devoted to encourage the industry of productive labourers, and yielded their host a permanent rent, which would be an addition to the income of the nation. The rich are indebted for their opulence to the productive labourers of the country, of whose produce they obtain so great a share. When luxury wastes this share, nothing returns to the labourers but the former capital, for which they must toil again, without any prospect of better days. And should this capital experience any diminution, as it too frequently does, from the fatal effects of heedless luxury, the returns to the labourers are diminished, and their misery increased.

A strong propensity to luxury is always dangerous. The inordinate desire of gain which it excites rarely submits to the slow (h) but safe progress of productive industry towards the acquisition of wealth. Cunning and craft offer more expeditious means. To strip the incautious rich of their property by gambling devices, is a shorter road to opulence. Swindlers and sharpers prey upon the unwary; their gains, though a benefit to them-

(b) A French poet says: “*Les méchants sont toujours empressés de jouir.*”

selves, are a loss to the nation. The latter is deprived of capitals which might have been productively employed. The example of luxury is besides contagious, and when it spreads among the middling classes of a nation, its effects are particularly fatal. Nothing is laid by for future contingencies. Those who have no means of accumulating stock, but by small savings, waste alike their time and their money; and a general prodigality has a far greater tendency to augment the inequality of fortunes, than to diminish it, as some have thought. A productive employment of capital is always of more service to the poor than an unproductive consumption. When the advocates of luxury lay so great a stress upon a small number of individuals being possibly benefitted by inconsiderate profusion, they forget that the same sums devoted to the production of useful commodities would have supported a greater number of individuals, and that their value would still be existing. The appearance of opulence, which luxury assumes, is of short duration; it consumes the sources of wealth, and entails lasting misery upon a nation. Such at least are its infallible effects in countries where the national income flows into the hands of a few. There misery the most extreme dwells near

the pompous castles where luxury holds its revels. It takes from three-fourths of the inhabitants the power of acquiring wealth.

But when luxury is the effect of a general and increasing prosperity, when part only of the surplus which remains after the nation has supplied all its wants, passes through the hands of its votaries, it may serve to stimulate the exertions of the industrious. Yet even in countries where capitals overflow, the excess of luxury ought to be avoided. Independent of the ruin which it never fails to entail upon the individuals that indulge in its excesses, it introduces too eager a pursuit after money, and tends to the corruption of good morals. Sumptuary laws are ineffective to repress luxury. A perfect freedom in the application and use of all kinds of property, and a complete liberty to profit by every opportunity of acquiring property by productive industry, are the best means of diffusing the habit of laborious exertion, of drawing the fortune of wanton spend-thrifts to the pockets of useful industrious people, and of preventing profigate idleness.

Not contented with defending luxury, some philosophers go so far as to praise poverty. They regard it as the most powerful incentive to profitable industry. But it is rather the

dread of poverty which has that benign influence. The man who bends under a load of misery has little inclination to labour. Poverty depresses the mind, enervates the body, and deadens the energies of the labourer. He who sees that his labour increases his well-being, returns to his task with renovated zeal. His enjoyments increase with the increased produce of his exertions, and the greater the number of new comforts with which he gets acquainted, the more he feels the advantage and the necessity of persevering with redoubled energy in his industrious career.

Prodigality and avarice are two extremes in the consumption of commodities. The former consumes without an object; the latter acquires and hords without an object. Economy is a wise, prudent consumption. It steers the middle road between prodigality and avarice. It is not only a moral virtue, it is the most beneficial consumption, as it constantly exerts itself to increase the national wealth. The prodigal and the miser deprive themselves alike of the advantages of riches; the former by destroying the sources which would have enabled him permanently to indulge in a moderate share of enjoyments, and even to extend them; the latter by denying himself every rational enjoyment which those sources

sources afford. The prodigal is more beloved, the miser more hated. Yet the miser is more useful to the community at large (i). The miser robs himself only. If he accumulates capitals and lends them out, or employs them in useful undertakings, he increases the national wealth. The prodigal not only dries up the sources of wealth for himself; he also deprives the community of the advantages which those sources would have procured, if they had been preserved. Every spendthrift, who runs through his income, deprives many a honest man of the reward of his labour. If the miser locks up his money in a strong chest, without employing it in productive undertakings, it is still used after his death. There is only one instance in which the miser does more harm to a nation than the prodigal, that

(i) " L'examen approfondi du genre de reproches que méritent les avares seroit peut être une question nouvelle. Ils accumulent leurs revenus au lieu d'en faire un emploi favorable à l'industrie. C'est un délit national. Voilà ce qu'on dit communément. Jugement severé et prononcé trop légèrement. Un homme quelque avare qu'il soit ne fait aucun tort politique à un état s'il prête son argent, s'il le met en circulation. Il n'en est pas de même lorsque par crainte ou par d'autres motifs on convertit en espèces d'or ou d'argent une grande portion de sa fortune, et que l'on garde oisivement ce capital dans ses coffres; mais ces sortes de manies sont fort rares. On en est détourné par son intérêt." *Manuscrit de Necker.*

is, when he buries his gold, and his treasure is never discovered. Economy consumes nothing without a reasonable object. It carefully compares the expenditure with the receipts ; it considers present and future wants, is prepared for contingencies, and is enabled to perform acts of generosity. The largest fortune needs the wise maxims of economy, the most essential of which is, never to consume the whole annual income, but constantly to save part of it for unforeseen occurrences.

CHAP. III.

Of the Consumption effected by Nature.

A N immense quantity of useful produce is spoiled by nature, and rendered absolutely useless to man. It is not his life alone that is assailed by an innumerable train of physical evils ; the commodities which he grows for his food, and others, are liable to the same attacks. Earthquakes, thunderstorms, hail, and inundations, epidemics, and the ravages of insects, often prove destructive enemies to the labours of man ; whatever he can save from their fury is a gain to the nation. Against many of these calamities there is no remedy ; against others individual resistance is too feeble ; they require the united efforts of an industrious people. Holland has been secured against inundations by its dikes.

But the consumption of nature has more frequently the most beneficial effects ; by producing more than it consumes, it sets the example of re-productive consumption. And here, too, human attention and care may save a great deal. What a superfluity of seeds are put

put into the ground (*k*)! What a number of plants stifled in their growth! How many fruits are suffered to rot on trees, for want of due diligence! Many more wants, in short, might be supplied, did man abandon less to the destruction of nature than is absolutely necessary for re-production. Every page of the book of nature fills us with an awful surprise at the wonderful profusion and apparent waste of feeds, in both the animal and vegetable creation. Millions and millions of plants are killed in the bud. Myriads of acorns, apple kernels, cherry-stones, and others that might have been as many trees, perish on the ground. It is the duty of man to lessen this consumption.

(*k*) Dr. Richard Worthington, in his *Address to the Practical Farmers of Great Britain*, contends, that seven parts in eight of the seed sown broad-cast are thrown away; and strenuously recommends sowing the corn in drills, at a sufficient distance from each other, to admit the subsequent use of the horse-hoe between them.

CHAP. IV.
Of private Consumption.

ALL the inhabitants of a country, without a single exception, are consumers: but all are not able to re-place the commodities they consume by another material produce. Yet it may be reasonably expected of all that they should make some return either soon after their consumption or at some future time. Consumers may therefore be divided into productive and unproductive, but of the latter those only are to be called idle consumers, who afford no advantage whatever to the community at large. It is true that all who do not produce commodities of exchangeable value get of others what they consume: but if they return to those of whom they obtain their supply, a benefit of equal value though it be an immaterial (mental) good, their consumption accomplishes the end of society. Idle consumers on the contrary impose a burthen proportionate to their number. They not only take away part of the income of the nation, but they also prevent the increase of productive labourers.

There

There are seven different classes of consumers, 1. The producers or growers of raw materials ; 2. The manufacturers, artists, handicraftsmen, &c., all in short who super-add a value to the raw produce ; 3. The merchants, dealers, and persons engaged in commerce and trade ; 4. The performers of useful or agreeable personal services ; 5. Children, helpless, sick, invalid, infirm or poor people ; 6. Idle consumers ; and 7. Individuals living by crimes. The first three classes are the trading or acquiring classes. They consist of productive labourers, undertakers, capitalists, and land-owners. The former consume their wages, and produce in return a value which not only re-places what they consume and the surplus of wages they may save, but also afford a considerable share to the land-owners and capitalists, as sleeping partners, and to the undertakers, as active partners in their productive business. Their consumption is generally re-productive. It is reached to them in the certain hope that their produce will exceed the amount of their wages. Nothing can be more profitable than their consumption. None is more conducive to the happiness of the nation, and to the universal prosperity of the country. But their reward ongth to be adequate to their toil.

toil. When their wages are barely sufficient to provide them with a scanty support, their powers are weakened, their ardour abates, and their inclination to labour gradually vanishes. Their produce grows less, and less is left for the remaining classes of the people. But when with their wages they can procure nourishing food, enjoy some conveniences with their families, lay by so much as to be provided against unforeseen accidents, or as to engage in time in some little undertakings of their own, they become sensible of the effect of their exertions upon the increase of their property, their zeal is invigorated, and they obtain a two-fold produce. It is through them chiefly that the national wealth is increased; no class of people can have a livelier interest in this increase. The high price of their wages and the consequent possibility of extending their consumption depend on the increased demand for labour which is the never-failing consequence of a progressive increase of national wealth.

Undertakers of farms and of manufactures are also generally productive consumers. They re-place the value of their consumption by their co-operation in the production of commodities. But when they consume every year their whole profit, they
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contribute nothing to the increase of national wealth. Undertakers prosper only by strict economy and vigilant superintendance. If they give themselves up to immoderate enjoyments, they are diverted from their business, and dissipate what they might apply to new productive labour. They suffer in their own concerns and contribute to impoverish the nation. When profitable undertakings centre in a few hands, and the few capitals of a country are entrusted to their exclusive management, luxury is apt to creep in; to increase their profits, the undertakers often abridge the wages of the labouring class who pine in misery, whilst their employers are growing rich at their expence. But when opulence begins to be more generally diffused, the number of undertakers is augmented, their profits grow less, and the wages of labour rise. The care, skill, and attention of the undertakers must keep pace with the progress of opulence. Few can indulge living in an extravagant style; at least it can no longer be done at the expence of the labourers; it must be supported by the surplus of their profits above their necessary consumption. And as the high price of labour tends to lower their profits, farmers become more intent upon abridging the destructive consumption.

sumption of nature, and the unnecessary consumption of superfluous labourers. Both these means tend to augment their wealth and that of the nation. The class of undertakers, as it is augmented with the increasing wealth of the nation, is also upon the whole a gainer by that increase.

Land-owners may consume whatever the lending of their property for the purposes of cultivation produces to them. If the rents they receive are sufficient for their maintenance, they have no occasion to draw an additional income from any other source: and as rents rise with the progress of population and wealth, which increases the demand for land, land-owners have a great interest in the increase of national wealth. When they consume their rents in luxury, their consumption has no beneficial influence upon the prosperity of the nation; but when part of their rents is applied to the improvement of their estates, or to productive labour, and their time is devoted to useful services to the nation, their consumption is doubly beneficial to the country. It is always extremely advantageous, in a national point of view, for owners to be the farmers of their own estates. More capital is bestowed upon the improvement of the soil, production is considerably increased,

increased, and the consumption of the land-owners becomes still more beneficial to the country, as they help to produce, by their own industry, a part of what they consume. It is also of the highest importance to the nation, that the landed property of the country be so distributed, that few rents be large enough to encourage luxury, and that no industrious individual be prevented from acquiring land, and improving its cultivation by his skill and diligence.

Capitalists, if they live by their interest, and perform no useful labour, are idle consumers in themselves. It is their property which helps to increase the wealth of the nation, and in this respect they are productive consumers. But they might also perform some useful services, to render their consumption still more beneficial. Idle capitalists could not be met with in a country that had reached the highest possible pitch of prosperity, for if a capitalist lives on the mere interest of his money, there must be some individuals indebted to him, and the highest degree of prosperity supposes that no person is in debt, but that every individual carries on his business with his own capital, or that every possessor of capital employs it in some business of his own. When a capitalist spends the whole interest

interest of his money, his capital alone is beneficial to the community : but when out of his interest he accumulates a fresh capital, and lends it out, or employs it in productive labour, he affords the labourers a fresh source of consumption, and increases the national wealth. The land-owner is always consuming his own produce, but the capitalist consumes his own produce only when the undertaker has actually employed his capital profitably. Whenever his capital is consumed without being replaced by any other useful commodity of greater value, the interest is paid from another source, and the greater the capitals for which interest is paid in this manner, the more must the remaining classes of inhabitants furnish towards it. The owners of such capitals diminish the consumption of others by their own. The fault, it is true, rests less with the owner of the capital than with the debtor who borrows, and makes no profitable use of the sums borrowed. Yet the influence on the wealth of the nation is fatal. He who spends a borrowed capital, brings upon himself a permanent obligation to pay the interest out of another source, which would have remained untouched if he had employed this capital profitably. Such a debt continually impairs his income; the capitalist, in this

instance, lives upon a part of his debtor's income, and not upon the operation of his capital, which, under the present supposition, has vanished. Private debts have a very various influence on consumption. When the debtor employs the borrowed capital in productive, gainful labour, the capitalist, in consuming his interest, lives on the produce of his capital: but when the capital is unsuccessfully employed, or idly spent, the capitalist lives, sometimes partly, and sometimes wholly at the expence of the debtor, and has nothing left to consume, the moment his debtor is unable to pay the interest out of any other part of his property. The money of capitalists who engage in useful undertakings is more secure, being employed in productive labour. The capitalists, in this case, acquire in a double capacity, and there is no danger that the nation will have the interest to pay out of other stocks. The class of unemployed capitalists is no where considerable except where there are national debts. The security and powerful incitements to lend which national debts hold out, can never be rivalled by private individuals. Where the opportunity of placing money with the state is wanting, capitalists are more readily induced to become undertakers, and are consequently more

more beneficial consumers, independent of the important consideration, that in the latter instance they preserve their capital, which in the hands of the state is, with a very few exceptions, lost for ever.

The consumption of the fourth class, or of the performers of personal services, must always be derived from the other productive classes. Their consumption is, however, sufficiently compensated if they afford the community any essential advantage ; and when the productive classes, strictly so called, produce a great surplus above their consumption, the share which they must part with to feed the performers of personal services does not fall heavy upon them. They give it with pleasure, if their services satisfy any of their nobler wants, or heighten their enjoyments. To supply their manifold wants and increase their enjoyments, is the very motive which impels them to produce a surplus. The performers of personal services fare the better the greater the demand for their services ; and the nation feels less pressure from their consumption in proportion to its opulence. It is only those whose services are useless, hurtful, or superfluous, that are a burthen to the community. They unnecessarily multiply the expences of the nation, and diminish the

sources of its income, by withdrawing from labour, hands that might be productively employed. It is in poor countries, in particular, that luxury increases the class of performers of personal services in a pernicious manner. Idle servants kept for show are pampered beyond what is due to their office, merely because that circumstance, too, is regarded by ostentation as a display of pomp and magnificence. Wherever luxury is not the consequence of generally diffused wealth, all its devises are calculated to rob the productive labouring class.

The consumption of children is unproductive as long as they cannot earn any thing. The sooner they can be taught to do so without prejudice to the nobler purposes of life, the better it is for the community at large.

The consumption of the helpless must be provided for from the income of others. Where most families are opulent it is easily supplied. When the wealth of a nation is increasing, few are reduced to absolute poverty; a maintenance is readily gained by labour; and most individuals may arrive at a competency if they chuse. Wherever men who can labour are reduced to poverty for want of employment, national wealth is on the

the decrease, unless the circumstance proceeds from a sudden revolution in the foreign markets, or from injurious restrictions of trade at home. The nation must either provide labour for the poor or feed them. The most pernicious way to maintain them is that of allowing them to beg their bread (*l*). Beggary is an evil generally deducible from a bad police; when it proceeds from the gradual decay of the nation, it hardly admits of a radical cure. The consumption of the poor is a progressive one; it is a dangerous whirlpool, that draws more and more families into the gulph of beggary; it continually increases the number of commodities that are consumed in vain. Its mischievous consequences to society are obvious.

The class of idlers is composed of all who do nothing useful. They must live on the produce of others, but their influence upon the progress of national wealth varies according to the sources of their income. Idle land-owners, and capitalists deriving their interest from productively employed capital, who consume only their annual income, do not impoverish the nation. But their individual persons are useless; their property would

(*l*) There is unkindness as well as impolicy in indiscriminate alms-giving. See *Gilpin's Dialogues*.

be productive without them. The class of idlers, nearly a-kin to beggars in their mischievous tendency, is that of those impostors, who unblushingly avail themselves of the weakness and credulity of the lower orders, to aliment their superstition and bigotry, by idle pretensions to superior sanctity ; to amuse them with juggling tricks and tasteless, indecent pastimes ; and to cure every bodily pain and infirmity with dangerous nostrums. The smaller the number of fanatic priests, mountebanks, and quacks, the greater the happiness of a nation.

Unfortunately there is also, in almost every country, a set of men who live by crimes, and forcibly take, secretly steal, or artfully obtain by swindling, what they consume. The extent of the degradations committed in opulent nations (*m*) by highway-men, house-breakers, pickpockets, fortune tellers, gamblers by profession, sharpers, and petty-fogging attorneys, is incredible.

(*m*) See an alarming catalogue of persons who are supposed to support themselves in and near London, by pursuits either criminal, illegal, or immoral, amounting to 115,000, in the *Introduction to Colquhoun's Treatise on the Police of London*.

CHAP. V.

Of public Consumption.

THE community at large has many wants which must be supplied by a proportionate share taken from the commodities of all individual members. Such wants are called public wants, and whatever they absorb of the national income is called the public consumption. Besides the parcels of land which must be excluded from private property for roads, walks, harbours, public buildings, &c. many personal services are required, either for the benefit of the whole community, or for the advantage of particular provinces and places. To direct these public concerns, and to regulate the contributions of each individual member towards the expences which they incur, a government is necessary. Its establishment and support constitute the first and most essential of public wants. The ends which it is to promote cannot be attained without an adequate revenue. This must be provided out of the national income, and is of course so much lost to the nation. Whether part of the soil be devoted to that special purpose, whether

whether every individual member applies annually a portion of his private income to that object, or whether every one performs in turn some public service, the nation is always deprived of the benefit of that soil, income, or service. The public revenue is consumed by supplying the public wants, in the same way as a private individual consumes his income by supplying his own. The salaries of the public functionaries afford the means of consuming: but they are drawn from the community. How far the public consumption is a proper one, is determined by the benefit which it procures to the community at large. But whatever may be the extent of these benefits, the nation fares the better the smaller the expence at which they are obtained. It then enjoys those benefits, and whatever their attainment costs less into the bargain. Public consumption must therefore be judged by the same rules as private consumption. What is prodigality in the latter, is not less so in the former. Economy is necessary, and a virtue, in both. It is the same in public and private concerns. There is but one economy, as there is but one probity. Economy in the administration of the public resources of a country is in fact of far higher importance than in the management of private concerns.

Prodigality

Prodigality in public consumption is nearly allied to robbery ; it infringes upon the property of every individual member of the nation. The first principle of a good government ought to be never to authorise any consumption that is not necessarily required for the attainment of the proper objects of the state ; the second, not to convert any other objects into public ones but such as are for the real benefit and interest of the nation ; and the third, to attain every public object at the smallest expence possible.

The principal object to be attained by means of the contributions of the community at large, is the support of government. A supreme power to superintend and to direct the affairs of the state, is of absolute necessity. It organizes the different institutions calculated for the internal and external safety of the nation, of which the civil and military administration of the country are the most essential : but religion, public instruction, the maintenance of the helpless and poor are also generally considered as public concerns.

A decent and liberal provision for the supreme head of the state is one of the most indispensable expences of the nation. But whether the reverence due to that head be more promoted by vain pomp and magnificence,

fidence, than by unostentatious grandeur which costs little, and is itself an example of wise economy, it is not difficult to decide.

The idle splendour of courts increases the burthens of the nation without any utility, and though it presses less hard upon a rich than upon a poor country, it yet appears equally reprehensible in both.

The civil administration, which comprises the administration of justice, the management of the foreign affairs of the country, and of its internal concerns, and the superintendance of the public revenue, requires a number of individuals that must be maintained. All public functionaries ought to be liberally paid, that they may devote all their time to the conscientious discharge of their duty, and be above corruption and fraud. The best maxim of the state is to demand much of its officers : but to pay them well. A few clever and active servants perform more than many indifferent ones. Liberal salaries are therefore perfectly consistent with economy, if they be given to those who deserve them. It is not the interest of a nation to accept of the services of those who make a parade of sacrificing their salary, particularly if there be any power connected with their functions. True merit is always deserving of its reward, and will rarely refuse the

the recompence to which it knows its services to be entitled. There ought to be full employment for every public functionary, and no new office created without an absolute necessity. Offices connected with any pompous ceremonial or empty formalities ought to enjoy the smallest salaries. There are in every nation, weak and ostentatious men that will press forward to fill such offices.

The military administration of a country is become an object of the highest importance ever since the progress of civilization has rendered it necessary to make its defence a particular profession, or to keep standing armies. Hunters, shepherds, and even husbandmen, may defend their country, but manufactures, commerce, and the arts, require that a particular set of men should carry on the trade of war. This trade is rendered more expensive by the preparations which it requires, even in times of peace, and its annual consumption is always considerable. But it would be still more considerable without a standing army(n).

Every

(n) Observe this little republic, where each citizen is, as it were, all, because the state is nothing ; where, at one moment, he assumes the gown, and at another his military armour. A shallow politician, an incapable judge, and an undisciplined soldier ; continually, either a prey to faction, or exposed to the rage of war ; whereas an extensive society, in which individuals

Every member of the community would be obliged to carry arms; in the event of a hostile attack, all trades would be at a stand, and an immense share of national wealth would be destroyed in every war. The public consumption of the army may be diminished in times of peace, not only by the reduction of the numbers of fighting men, but

dividuals are united to each other by the same laws and the same interests, derives its peaceful situation from the prudent division of its labours. In such a society, the soldier is not engaged in pleading the cause of the oppressed, nor the magistrate in defending the ramparts. The labourer pursues unmolested the cultivation of his ground, and the warrior repels the invaders of the country. In such a society, peace wears a hundred additional charms, and war loses a hundred of its horrors. Whilst France was engaged in the wars of 1733, 1741, and 1757, no more than the hundredth part of her inhabitants were, at any time, sharers in the danger. Extensive provinces enjoyed a calm serenity, and even millions of labourers knew not in what part of the world the armies were engaged. To these advantages, we may add that sweetness of manners, and those comforts of life, which a nation can scarcely retain, but by the means of regular troops, that is to say, those representatives of the nation who are entrusted with the care of conducting the war. What must have been the destiny of men who passed their whole lives as if every day had been the eve of a battle! The custom of maintaining a standing army became the only remedy against this inconvenience. *Majores nostri bella gererunt, nos tributa dependimus ne bella patiamur. De Chatellur, Essai sur la Félicité publique. Tome I. Chap. IV.*

also by turning them to public employments, such as the repairing and making of highways, digging canals, &c. War consumes not only the expences of the army; but the gain which it prevents, whatever is unnecessarily wasted and destroyed, and its fatal moral consequences, must also be placed to its account.

No object can be of higher interest to every individual member of the community, than the acquisition of knowledge. We are in perpetual contact with the three kingdoms of nature. Our food, our clothes, our dwellings, every commodity we use must be made according to certain laws and rules. The more these laws are understood, the more are the accommodations of life improved. The influence of knowledge in meliorating the condition of society constitutes its acquisition a public object. Were the operation of individual interest a sufficient incitement to acquire and to disseminate knowledge, there would be no occasion to make it a public concern: but science seldom procures its possessors advantages equal to those which it confers on the community, because these advantages show themselves only after the lapse of years, nay, after the lapse of ages. No nation, however, ought to lose sight of the benefits that may accrue to posterity. Academies,
learned

learned societies, universities, and other similar establishments, are useful to treasure up the knowledge previously acquired, to propagate sciences, to extend the fields of discovery, to prepare proper instructors for the rising generation, and to render the candidates for high administrative functions competent to the discharge of those important offices. How far the universities of some countries may be deficient in their plans of study to accomplish these views, it is not the province of political economy to inquire: but it may lament its being frequently excluded from the catalogue of sciences taught in those learned seminaries.

The majority of the members of a community being seldom sufficiently opulent to make any sacrifices in favour of instruction, it appears very proper that government should come to their assistance to extend its benefit. To enable every individual of the nation to grow wiser, more enlightened and better informed must be a public object, until the advantage of knowledge be so generally felt, that every parent considers it as his first duty to insure its communication to his offspring (o).

Every

(o) Professor *Dantzel*, of Hamburg, proposed some years ago, an *insurance office for the education of youth*, into which parents might pay a certain sum annually, from the birth

Every civilized nation has been desirous of diffusing religious principles by means of a public worship supported by public expences, under the idea that religion inculcates the best principles to direct and controul the actions of men. If this worship does not evaporate in mere rites and ceremonies, if the tenets which the public teachers of religion promulgate and enforce, tend to enlighten the mind, and to improve the heart, there can

birth of a child, on condition of receiving in return, exclusively, for the child's education, from the time at which it should attain a particular age, a regular allowance for a sufficient number of years to complete a proper education. The child dying would at any time leave its right, not to the parents, but to the fund. There might be different classes of contributions and allowances for learned or professional, mercantile, agricultural, and common or general education. The advantages of this plan, as it has not been tried, are merely prospective. Mr. *Lancaster*, by his improvements in the common methods of teaching, which not only economize time, but exert the most beneficial influence upon the happiness of thousands of innocent beings, whom they rescue from pedantic gloom and severity, has conferred a more immediate benefit upon the world at large. His excellent plan, sure to reach beyond the shores of the British empire. A board of education has been appointed in Ireland, composed of men of character, talents, rank, fortune, and popularity. They are to inquire into the state of the schools in Ireland, and to establish a good system of education for the lower orders of the people.

be little doubt but that a religious establishment is entitled to be considered as a public object; yet the expences which it entails on the country need never be very considerable. Those who preach moderation and temperance ought to live on moderate incomes.

The helpless and poor have an undoubted claim upon the assistance of society, if their misfortunes be a consequence of the social compact. That every member of the community be secured against the severities of fate, that none be left to perish for want, that none at least be ever deprived of the absolute necessities of life, if he be disabled from earning his maintenance, must have been the conditions on which alone the introduction of private property could receive the universal assent. Though much may be left to private benevolence, it yet appears a proper public object to establish at the expence of all, a chest out of which the necessities of individuals may be supplied in time of need (*p.*).

(*p.*) *U*pon the subject of the maintenance of the poor, there is an abstraction of all the material points in dispute between the advocates and opponents of a legal assessment, in *J. Bentham's Traité de Législation*. *Paris*, 1802. *Tome II. Chap. I. p. 59.* Mr. Bentham decides in favour of a legal assessment, on account of the uncertainty, inequality, and inadequacy of voluntary contributions.

The support of the necessitous may, in some degree, be considered as a debt due from the rich to the poor, on account of the inadequacy of their wages to enable them to be prepared for unfortunate accidents. A legal assessment is, in fact, an apology for low wages. But the state ought merely to keep the unfortunate alive, and prevent the mischievous idea getting abroad, that they may do without labour, and be equally well fed by their parish. A system of charitable institutions, which provides for the poor better than they can provide for themselves with the earnings of their industry, is highly injurious to a country.

But all public objects need not to be under the immediate administration of government. The management of some of them may be entrusted to the corporate bodies of towns, parishes, or any private community which it may more particularly concern, such as the making of high roads, public walks, canals, bridges, erecting churches and public buildings, &c. Every private community is best acquainted with its wants, and the means most adequate to supply them; it easily finds among its members, persons to whom their concerns may safely be trusted, and who can best watch the employment of the public

money. The internal police of towns and villages, the maintenance of their schools, churches, and charitable foundations, are best in the hands of every private community, under the general superintendance of government: but the application of the public revenue ought to be exclusively left to the superior officers of the state, with whom it must be an inviolable principle to draw as little as possible to their general administration, and to leave local concerns to those who can manage them best. The less complicated the machine of government is, the easier is its superintendance; its expences are also lessened in proportion to its greater utility.

CHAP. VI.

Of the Sources of public Consumption.

THE mode of collecting the public revenue is susceptible of great variety. Lands may have been originally assigned to defray the public expences with their produce; government may exclusively carry on certain trades, to apply the profits of the same to public objects; the nation may provide government with the means of supplying every public want as it occurs, every individual member contributing in proportion to his income. It may also be left to the option of every member to pay his contribution in natural and artificial productions, and in personal services, or in money.

That government is neither a good land-owner nor a good tradesman, has been sufficiently shown above. [B. II. CH. IX.] The state consumes more than is necessary, when it collects its revenue by means of demesnes and royalties. To lend capitals out upon interest to defray the public expences, is for great states a feeble resource, and for all a dangerous one. The Swiss Cantons have lost large sums in France.

According to *Stanian*, at that time British Envoy at Berne, that canton, in the beginning of the eighteenth century, had not less than 300,000l. sterling in the English funds. To supply the public wants by contributions in kind and personal services, is still worse than by demesnes and royalties. Contributions in kind are equally troublesome in their collection, preservation, and distribution. Government receives less than the contributor furnishes. Much is destroyed, and much remains in the hands of the receivers or collectors. They are not less burthensome to the contributors, because the latter are exposed to the cavils of the tax-gatherer, and generally forced to contribute more than what actually goes to the state. Personal services are still more injurious. They not only have all the disadvantages connected with contributions in kind, but they also diminish alike the wealth of the contributors and that of the nation, by rendering the slothfulness with which they are performed habitual in the private occupations of the individuals, keeping them in a sort of slavish dependence, and consuming more than is necessary to accomplish their purpose. It is only in countries void of industry, where opportunities of earning any thing by labour are wanting, and where the use of money and its superior

superior advantages are still unknown, that contributions in kind and personal services for the benefit of the state may be allowable. But wherever money is known, and wherever labour has an exchangeable value, the public wants are best supplied by proportionate contributions in money. They answer the end for which they are intended most completely, because there is no possibility of giving less than is demanded; they do not restrict government with regard to the use they may be applied to, which is always the case in contributions in kind and personal services; they infringe neither upon the personal freedom nor upon the particular property of the contributors; and provided they be properly levied and applied, they rather tend to encourage than to destroy industry. But whether paid in kind, in personal services, or in money, taxes are always a burthen to a nation; they are consumed by the state and lost to the individuals who pay them, and to the nation at large.

Some political philosophers have supposed that taxes paid in money are noways burthen-some to the people, because they receive the money back again from the state. But the money is returned to those only who furnish a fresh consideration or value for it. They are

first obliged to part with a valuable commodity in order to get the money which they pay as a tax, and then they are obliged to part with another valuable commodity to get the money back again. The state receives the money of the subject for nothing: but it does not give it away again for nothing.

Others have gone so far as to suppose that taxes are means of increasing the national wealth. They say, “ If people are obliged “ to pay taxes, they must exert themselves “ and increase their industry to be enabled to “ pay them.” But this industrious exertion is unavailing; they must part with its produce for nothing. Industry enriches a nation only when its produce increases its stock of commodities. The valuable commodity produced in consequence of the tax goes to the public functionaries: but if they be uselessly fed, it would be far more advantageous to the nation that they should be forced to earn their maintenance by productive labour, than that others should be put to the hard task of labouring for them. No individual is fond of labouring for others. Taxes therefore are but a poor incitement to industry; and in this instance, as in so many others, the effect has been mistaken for the cause. The inhabitants of a flourishing country do not grow rich because they pay

pay heavy taxes: they are able to pay heavy taxes because they are rich. That taxes may invigorate the industry of a country, is true; this is indeed their constant effect in well governed states. They are employed for the public safety, and applied to none but really public objects, which, as they afford liberty, protection, and security, are essential conditions on which nations are enabled to advance on the road to prosperity. Still it is not the load of taxes that enriches, it is the importance of the ends attained by their useful application. If the attendant expences could be lessened, the nation would be richer and happier. Besides the advantages derived from the goodness of its public institutions, it would convert into new sources of wealth and enjoyment whatever sums a truly economical administration of the public revenue could leave in the pockets of the people. A nation suffers doubly when its taxes are mostly spent in foreign countries, and not returned to those who out of their means formed, as it were, a rich customer, that disappoints their speculation by spending his money abroad. Even the loss of a private rich customer is felt by a nation in several of its ramifications. That system of taxation is every where the best which collects the smallest possible sum for the attainment

ment of public objects at the smallest possible expence, and in a manner which restricts neither the personal liberty nor the property of the subject; and that administration is the wisest which applies the public revenue with the strictest economy to those public objects only that are acknowledged necessary and useful, or genuine public objects.

If a state be involved in wars or exposed to other great misfortunes, its ordinary annual revenue proves insufficient; it is obliged to have recourse to a treasure previously accumulated for extraordinary occasions, to an increase of taxes, or to loans. Every one of these resources renders the public consumption more considerable.

A treasure may be accumulated by levying a somewhat larger amount of taxes than the current necessities of the state require, and consigning every year's surplus to the public exchequer. This increases the public consumption by the whole surplus produce of taxes which goes to the exchequer; the money deposited is withdrawn from circulation, and the nation loses all the benefits that might have been derived from the productive employment of that capital during the time that the treasure is left untouched. However, if the nation be so opulent that the pressure of somewhat

what heavier taxes be not felt, or if they absorb only a moderate share of its annual profits; if the treasure be accumulated gradually, so as to occasion little obstruction to circulation, the amassing of a public treasure, though still oppressive to the nation, offers yet one important political advantage: the nation may appear in arms, and begin a war quicker than any other, and carry it on, at least for a time, without any embarrassment, and at a less expence; the levying of additional taxes is avoided, at a moment when the nation has to struggle with other evils, supposing even that from its favourable situation it were perfectly safe against immediate hostile aggressions; and if debts must be incurred, the credit of the state stands high. This single advantage, which presupposes, besides, a dangerous propensity to warlike measures, and which is only calculated to save a greater evil under a certain pressure of circumstances, can never be considered as capable of balancing the permanent injury done to the nation by the accumulation of a public treasure. Loans must, after all, be reported to when the treasure is exhausted.

By opening a public loan the state contracts a debt. The capital borrowed is generally consumed, its value of course completely lost, and

and the nation must pay the interest until it repays the capital. When a capital is embarked in productive employment, the borrower reproduces the capital, and along with it the interest and a profit for himself; he repays the capital and interest, as it were, with the identical capital borrowed: but when the state borrows, the total value of the capital is consumed; government is unable to pay either capital or interest out of the capital borrowed; both must be drawn from another source, namely, from the remaining property of the nation.

Some political philosophers are still harbouring the strange opinion that national debts are not injurious to the wealth of a nation; nay, others go so far as to consider them as component parts of the national wealth. They say: "When individual members of the nation lend a capital, they themselves enjoy the interest of that capital. The whole capital is spent among the people; one part of them pays the interest, another (the stockholders) receive it. The nation is not grown poorer, it has the same capital and the same income still. The state paper represents the capital, and may be used as ready money. It has the same effect."

Neither

Neither of these assertions can be seriously maintained. The creditor, it is true, gets his interest, but not from the produce of his capital, he gets it out of the produce of the capitals of others, from whom the state is forced to collect it. Though the state-paper be worth something as long as the credit of the state lasts, and may even be productive of some good by increasing the mediums of payment, yet what is become of the capital which it represents? That capital is gone, and can never be re-placed but by another fresh capital. Had the capital been lent to promote some useful productive undertaking, it would still be in existence, and the acknowledgment of the undertaker along with it. In the case of national debts the acknowledgment only exists, the capital vanishes. That the national acknowledgment of a debt is more effective in circulation than a private acknowledgment, is true, and it is undoubtedly an advantage, but that advantage is due to the solvency of the rest of the nation. Ask Holland what is become of the capitals represented by her national debts; they are reduced to one-third of what they were before its annexation to France, or the interest is reduced at once from three to one per cent. If it be said that, in countries

over-

overflowing with capital, the money lent to the nation is not withdrawn from productive employment ; that it would lay idle or be consumed by its owners : it may be answered, that the nation would be more benefitted by enjoying its capitals, than by wasting them in warlike enterprizes, and that, in that case, the nation would not be burthened with the payment of a permanent interest. Every public loan has the pernicious effect of withdrawing capital from productive labour or enjoyment, to devote it to public consumption, and of preventing all the profits which might have been made, and all the enjoyments which might have been procured with that capital. Capitalists, when they lend their money to undertakers and receive the interest from their actual produce of their property, are productive members of the nation ; when they lend to the state, they become unproductive members ; they then live upon the produce of other people's property. Public loans are a public consumption, and state-papers are no component parts of national wealth. The acknowledgement of a debt due by the nation, gives to one part of the nation (the creditors of the state) a claim upon the property of the other part : but this claim has no solid foundation.

The

The trade with stocks produces nothing to the nation, and becomes highly injurious when it degenerates into gambling speculations (agiotage). It effects nothing but an exchange of state creditors, or a transfer of stocks from one hand to the other, without the least addition to their real value. When the buyers and sellers are merely watching the frequent accidental rising and sinking of the stock, these gambling speculations attract a considerable capital, and render it unproductive. Every individual gain in stock-jobbing, as in any other game of chance, is a loss to another individual member of the community. The stock-jobber gains nothing through the productive powers of his capital ; what he gains is lost by less skilful, or more unfortunate gamblers.

But though national debts be always an evil, they yet are frequently an unavoidable evil ; and of all the means the state can resort to in case of need, they certainly are the best. A public loan raises the sum wanted at once, and the nation re-pays it but gradually. If the state be certain to supply its pecuniary wants at the usual rate of interest, public loans are undoubtedly preferable to accumulating a treasure ; they do not withdraw money from circulation for a long time, and

and the care of amassing is left to the subject, of whom the state borrows its money in an emergency. But though the expediency of public loans be admitted, it must, however, not be supposed that the wealth of the nation is increased, or not injured by the expedient. Whoever borrows a capital for the purpose of consuming it, and not to employ it in productive labour, does always unavoidably diminish his property.

There are different methods of raising money by public loans. The state either engages to repay the capital at a certain time, or in certain portions; or it reserves to itself the right of keeping the capital at its own option, in which case it insures a permanent interest to the creditor. The first method varies according to the mode of raising the money, according to the security, and according to the re-payment. It is not often that the state borrows upon pledges or mortgages of land, it more frequently gives Exchequer bills or paper money in payment for its wants, and engages to redeem them at its option at the period of peace, or at any other time with or without interest. If such paper sinks in credit, public functionaries paid with it are great sufferers, and the state itself cannot support it long. In this case a public loan would

would have been far preferable ; were the interest of the loan deducted from the salaries of public functionaries, they would suffer less than from a depreciation of such state paper. Sometimes the state repays part of the capital along with the annual interest, or it enters into a sort of gambling contract with the public creditors, and engages to give every one of them a higher rate of interest as long as he lives, provided they all renounce their claims upon their respective capitals ; in this case the creditor profits by a long life and the state by the untimely death of its creditors ; or it grants to a limited number of creditors the usual rate of interest, and pays the whole amount of this interest in full as long as there is a single member of the society that lent the money living, so that the last surviving creditor enjoys the interest of all those that are dead, and the debt itself becomes extinct at his decease. The former way of raising money is by life-annuities, the latter by a tontine. Sometimes the state borrows by anticipations, it takes the amount of certain duties which it has to receive, in advance, and applies the taxes to the re-payment of both capital and interest ; or it sells its claim to certain permanent taxes, as was done in England by

the late William Pitt with the land-tax. The most profitable method, however, is that which is now almost generally adopted. It insures a permanent interest, and leaves the re-payment of the capital to the option of the state. It is called the funding system, because a fund is assigned for the payment of the interest. If there be also a fund assigned for the repayment of the debt itself, the latter is called a sinking fund. In this system the tax assigned pays the interest only: but to provide at the same time for the re-payment of the capital, this tax is laid on a little higher, and the overplus of its produce is destined for the gradual extinction of the debt. This surplus, namely, is increased from year to year, by the addition of the interest which is saved of that part of the capital that has actually been paid, by re-purchasing some of the stock. If this system has not yet been able to reduce the national debt in the country where it had been religiously adhered to, till 1811, it has at least enabled that country to borrow with more facility.

Other methods have been tried with various success. Some states have even gone so far as to force the rich to lend them their money; such loans are justly styled forced loans. Others have inticed the money out of the pockets

pockets of the subject by means of lotteries, and paid the prizes with state paper. The particular investigation of the different systems of raising loans for the state, belongs to financial science. It may, however, be observed, that forced loans are much more prejudicial to a nation than voluntary ones. They drive the rich from the country, or prevent their employing their money, and withdraw from productive labour such capitals as would have been most productive. They impair the productive powers much more than voluntary loans which are contracted merely from views of private interest. State lotteries invite the people in a mass to gamble, and stifle the inclination to labour by holding out deceitful hopes and betraying into idleness the few adventurers who chance to be gainers. It is rare that prizes in a lottery are properly applied. Life-annuities and tontines, by enabling those who would have been obliged to work for a maintenance to subsist at the expence of the present and succeeding generations, encourage idleness and prodigality. The annuitants live on the taxes paid by the people, and rob their posterity of the capitals they had a right to expect of them. They weaken domestic affections; they diminish the national wealth by the total amount of the

capitals they sink and their eventual produce. Every public creditor in short lives at the expence of the nation. Were it not for public loans or national debts in general, capitalists would be obliged to embark their money in useful productive undertakings. The undertakers would pay the interest out of their profits, and live comfortably on the produce of the capital. The support or maintenance of the capitalists, far from being burthensome, would be beneficial to the people. Many capitalists would be forced to engage in productive enterprizes; they would improve the soil of their estates, cultivate waste lands, and help to increase the wealth of the nation, whilst the facility to place their money in the stocks invites them to idleness and luxury, and prevents for ever the useful effects of their capitals.

When a state is unable to perform its pecuniary engagements, it disguises its situation by paying the national creditor in paper or coin, worth less than that which had been lent to the nation, or by arbitrarily lowering the interest. A total failure would cause a violent commotion: but if it be gradually prepared, it perhaps would not operate so fatally upon the national prosperity at large, as it appears at first sight. No real capital would

would be lost, that is gone long since, and it can never be repaid but out of the property of the nation. The sums raised to defray the annual interest would be employed in productive undertakings; instead of being paid to idle stockholders; these would be forced to return to the labouring class, and to produce commodities of real value, and as there would be no longer any inducement to withhold capitals from productive trades, capitals would flow into useful channels. That such a measure must be deprecated as highly unjust to the state creditor, is evident. The stockholders, and most of those who derive their support from them, would be cruel sufferers, and it is impossible to calculate the individual calamities and inconveniences which would extend to every ramification of the higher and middle ranks: but it appears that the majority of the nation would be considerably benefitted by the non-payment of those sums which are now paid to the stockholders exclusively. The consideration that such a measure would be destructive of the public credit of the nation can have no weight, as it would be the height of folly to incur the odium of such an attempt, and to expose the nation to such a tremendous convulsion without the most solemn determination never to

resort again to the system of providing for the expences of the state by public loans.

The liquidation of an overgrown national debt is one of the most difficult problems in political economy, and in an elementary treatise it is impossible to discuss the merits of the different plans that have been suggested. They all require great sacrifices. And as neither the cancelling nor the liquidation of a national debt can be accomplished without injustice to one part of the nation or the other, it ought first to be clearly demonstrated that it is the least unjust, before either of the measures can be recommended.

FINIS.



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